

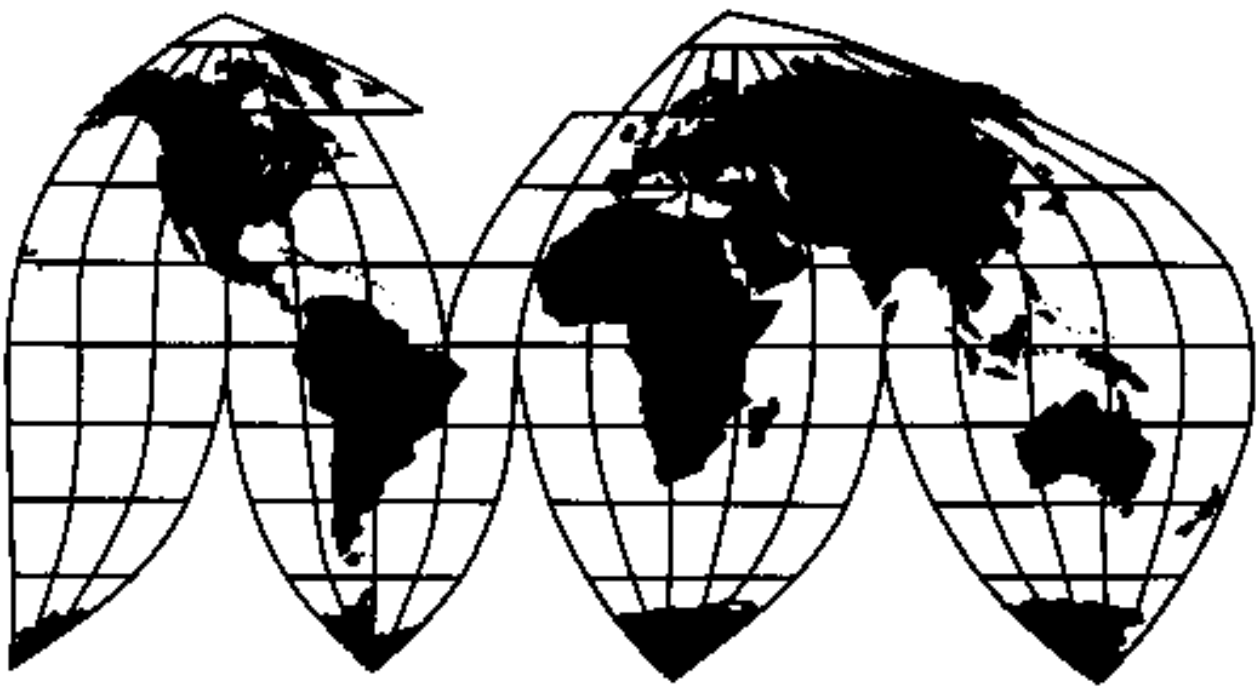
Certain Tissue Paper Products and Crepe Paper Products From China

Investigation No. 731-TA-1070 (Preliminary)

Publication 3682

April 2004

U.S. International Trade Commission



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Washington, DC 20436

U.S. International Trade Commission

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Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.

GLOSSARY OF FIRMS

American Crepe	American Crepe Corp.
American Greetings	American Greetings
Beistle	The Beistle Company
Burrows	Burrows Paper Corporation
Chemco	Chemco
Cindus	Cindus Corporation
Creative Expressions	Creative Expressions/Hoffmaster
Crystal Creative.	Crystal Creative Products, Inc.
DMD	DMD Industries
Eagle	Eagle Tissue LLC
Flower City	Flower City Tissue Mills Co.
Garlock	Garlock Printing & Converting Inc.
Green Mountain	Green Mountain Specialties Inc.
Hallmark	Hallmark Cards, Inc.
Pacon	Pacon Corporation
Paper Service	Paper Service Limited
Printwrap	Printwrap Corp.
Putney	Putney Paper Co., Inc.
Seaman	Seaman Paper Co. of Mass. & Dennecrepe
Sullivan	Sullivan Paper Co. Inc.

GLOSSARY OF TERMS

AUV	Average unit value
COGS	Cost of goods sold
Commerce	U.S. Department of Commerce
Commission	U.S. International Trade Commission
F.o.b.	Free on board
<i>FR</i>	<i>Federal Register</i>
HTS, HTSUS	Harmonized Tariff Schedule of the United States
PRWs	Production and related workers
R&D	Research and development expenses
SG&A	Selling, general, and administrative
USITC	U.S. International Trade Commission

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-1070 (Preliminary) CERTAIN TISSUE PAPER PRODUCTS AND CREPE PAPER PRODUCTS FROM CHINA

DETERMINATION

On the basis of the record¹ developed in the subject investigation, the United States International Trade Commission (Commission) determines, pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)) (the Act), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China of certain tissue paper products and that an industry in the United States is materially injured by reason of imports from China of crepe paper products that are alleged to be sold in the United States at less than fair value (LTFV). The tissue paper products and crepe paper products subject to this investigation do not have specific classification numbers assigned to them under the Harmonized Tariff Schedule of the United States (HTS) and appear to be imported under one or more of several different residual or “basket” categories, including but not necessarily limited to the following subheadings: 4802.30; 4802.54; 4802.61; 4802.62; 4802.69; 4804.39; 4806.40; 4808.30; 4808.90; 4811.90; 4823.90; and 9505.90.40.

COMMENCEMENT OF FINAL PHASE INVESTIGATION

Pursuant to section 207.18 of the Commission’s rules, the Commission also gives notice of the commencement of the final phase of its investigation. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission’s rules, upon notice from the Department of Commerce (Commerce) of an affirmative preliminary determination in the investigation under section 733(b) of the Act, or, if the preliminary determination is negative, upon notice of an affirmative final determination in that investigation under section 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigation need not enter a separate appearance for the final phase of the investigation. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

BACKGROUND

On February 17, 2004, a petition was filed with the Commission and Commerce by Seaman Paper Company of Massachusetts, Inc. (Otter River, MA), American Crepe Corporation (Montoursville, PA), Eagle Tissue LLC (South Windsor, CT), Flower City Tissue Mills Co. (Rochester, NY), Garlock Printing & Converting, Inc. (Gardner, MA), Paper Service Ltd. (Hinsdale, NH), Putney Paper Co., Ltd. (Putney, VT), and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO, CLC, alleging that industries in the United States are materially injured by reason of LTFV imports of certain tissue paper products and crepe paper products from China. Accordingly, effective February 17, 2004, the Commission instituted antidumping duty investigation No. 731-TA-1070 (Preliminary).

Notice of the institution of the Commission’s investigation and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S.

¹ The record is defined in sec. 207.2(f) of the Commission’s Rules of Practice and Procedure (19 CFR § 207.2(f)).

International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of February 23, 2004 (69 FR 8232). The conference was held in Washington, DC, on March 9, 2004, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION

Based on the record in this investigation, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of tissue paper from China that are allegedly sold in the United States at less than fair value (“LTFV”), and that an industry in the United States is materially injured by imports of crepe paper from China that are allegedly sold in the United States at LTFV.

I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determinations, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.¹ In applying this standard, the Commission weighs the evidence before it and determines whether “(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation.”²

II. MARKET BACKGROUND

Certain tissue paper products (“tissue paper”) are thin, lightweight paper sold in the form of cut-to-length sheets (folds or reams), suitable for wrapping of products for protection and/or decorative purposes.³ Tissue paper is sold in a range of sizes and colors, although white tissue paper reportedly constitutes the largest segment of the tissue paper market.⁴ Tissue paper may or may not be decorated with printed designs and is available in a variety of packaging. Some forms of packaging, such as folded sheets in plastic bags or paper bands, are sold to consumers. By contrast, larger containers such as boxes containing large quantities of unfolded sheets or reams, are sold principally for use by retail establishments.⁵

Crepe paper products (“crepe paper”) are thin, lightweight paper having a finely wrinkled texture that are generally sold in the form of streamers suitable for use as a decoration at parties, weddings, and other social events. Crepe paper is usually treated with flame-retardant chemicals. Crepe paper is sold in a range of colors and generally is packaged in plastic bags for sale to consumers.⁶

The domestic industry producing tissue paper consists of 16 companies, the largest of which are ***. At least 30 U.S. companies are known to import tissue paper from China, including six companies that currently or formerly produced tissue paper domestically. The largest importers are ***. There are few known importers of tissue paper from countries other than China. The largest purchasers of tissue

¹ 19 U.S.C. § 1673b(a); see also American Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); Aristech Chemical Corp. v. United States, 20 CIT 353, 354-55 (1996). No party argued that the establishment of an industry is materially retarded by reason of the allegedly unfairly traded imports.

² American Lamb, 785 F.2d at 1001; see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

³ Petition at 30. Lower grades of white tissue paper have little decorative value and are used principally as dunnage to stuff items such as shoes and handbags. CR at I-6; PR at I-4.

⁴ Petition at 30.

⁵ Petition at 6, 30.

⁶ Petition at 32.

paper include TJ Maxx and May Department Stores, both of which purchase the product in bulk for wrapping merchandise purchased by their customers (“bulk” tissue paper), and Wal-Mart and Target, both of which purchase folded tissue paper for sale to consumers (“consumer” tissue paper).⁷

The domestic industry producing crepe paper consists of four companies, the largest of which are ***. At least 10 U.S. companies are known to import crepe paper from China, two of which, ***, also produce crepe paper domestically. The largest importers are ***. There are virtually no known importers of crepe paper from countries other than China. The largest purchasers of crepe paper include ***.⁸

Domestic shipments accounted for 91 percent of apparent U.S. consumption of tissue paper in 2001, 87 percent in 2002, and 66 percent in 2003.⁹ For crepe paper, domestic shipments accounted for *** percent of apparent U.S. consumption in 2001, *** percent in 2002, and *** percent in 2003.¹⁰ For both tissue paper and crepe paper, imports from China accounted for nearly all of the balance of U.S. market shipments during 2001 through 2003.¹¹

III. DOMESTIC LIKE PRODUCT

A. In General

To determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the “domestic like product” and the “industry.”¹² Section 771(4)(A) of the Tariff Act of 1930, as amended (the Act), defines the relevant domestic industry as the “producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”¹³ In turn, the Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation”¹⁴

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.¹⁵ No single factor is dispositive, and the Commission

⁷ Petition at 12. The petition identifies 12 additional companies that purchase substantial volumes of tissue paper: ***, Petition at Ex. 9.

⁸ Petition at Ex. 35; Questionnaire responses of ***, question IV-C, p. 22.

⁹ Confidential Staff Report (“CR”) and Public Staff Report (“PR”) at Table IV-3.

¹⁰ CR and PR at Table IV-5.

¹¹ CR and PR at Tables IV-3 and IV-5.

¹² 19 U.S.C. § 1677(4)(A).

¹³ Id.

¹⁴ 19 U.S.C. § 1677(10).

¹⁵ See, e.g., NEC Corp. v. Department of Commerce, 36 F. Supp.2d 380, 383 (Ct. Int’l Trade 1998); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Torrington Co. v. United States, 747 F. Supp. 744, 749 n.3 (Ct. Int’l Trade 1990), aff’d, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See Nippon, 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

may consider other factors it deems relevant based on the facts of a particular investigation.¹⁶ The Commission looks for clear dividing lines among possible like products, and disregards minor variations.¹⁷ Although the Commission must accept the determination of Commerce as to the scope of the imported merchandise allegedly subsidized or sold at LTFV, the Commission determines what domestic product is like the imported articles Commerce has identified.¹⁸ The Commission must base its domestic like product determination on the record in this investigation. The Commission is not bound by prior determinations, even those pertaining to the same imported products, but may draw upon previous determinations in addressing pertinent like product issues.¹⁹

B. Product Description

Commerce instituted two separate investigations of the subject merchandise. The products covered by these two investigations are: 1) certain tissue paper products from China, and 2) certain crepe paper products from China. In its notice of initiation, Commerce has defined these products as follows:

The **tissue paper products** subject to investigation are cut-to-length sheets of tissue paper having a basis weight not exceeding 29 grams per square meter. Tissue paper products subject to this investigation may or may not be bleached, dye-colored, surface-colored, glazed, surface decorated or printed, sequined, crinkled, embossed, and/or die cut. The tissue paper subject to this investigation is in the form of cut-to-length sheets of tissue paper with a width equal to or greater than one-half (0.5) inch. Subject tissue paper may be flat or folded, and may be packaged by banding or wrapping with paper or film, by placing in plastic or film bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of tissue paper subject to this investigation may consist solely of tissue paper of one color and/or style, or may contain multiple colors and/or styles. Excluded from the scope of the investigation are the following tissue paper products: (1) tissue paper products that are coated in wax, paraffin, or polymers, of a kind used in floral and food service applications; (2) tissue paper products that have been perforated, embossed, or die-cut to the shape of a toilet seat, i.e., disposable sanitary covers for toilet seats; (3) toilet or facial tissue stock, towel or napkin stock, paper of a kind used for household or sanitary purposes, cellulose wadding, and webs of cellulose fibers (HTS 4803.00.20.00 and 4803.00.40.00).

The **crepe paper products** subject to investigation have a basis weight not exceeding 29 grams per square meter prior to being creped and, if appropriate, flameproofed. Crepe

¹⁶ See, e.g., S. Rep. No. 249, 96th Cong., 1st Sess., at 90-91 (1979).

¹⁷ Nippon Steel, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49; see also S. Rep. No. 249 at 90-91 (Congress has indicated that the domestic like product standard should not be interpreted in “such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not ‘like’ each other, nor should the definition of ‘like product’ be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.”).

¹⁸ Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find a single domestic like product corresponding to several different classes or kinds defined by Commerce); Torrington, 747 F. Supp. at 748-52 (affirming Commission’s determination of six domestic like products in investigations where Commerce found five classes or kinds).

¹⁹ See Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp.2d 1298, 1304-05 (Ct. Int’l Trade 2000); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n.5 (Ct. Int’l Trade 1988) (particularly addressing like product determination); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int’l Trade 1988).

paper has a finely wrinkled surface texture and typically but not exclusively is treated to be flame-retardant. Crepe paper is typically but not exclusively produced as streamers in roll form and packaged in plastic bags. Crepe paper may or may not be bleached, dye-colored, surface-colored, surface decorated or printed, glazed, sequined, embossed, die-cut, and/or flame-retardant. Subject crepe paper may be rolled, flat or folded, and may be packaged by banding or wrapping with paper, by placing in plastic bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of crepe paper subject to this investigation may consist solely of crepe paper of one color and/or style, or may contain multiple colors and/or styles.²⁰

C. Domestic Like Product

Petitioners contend that Commission should define two separate like products, tissue paper and crepe paper.²¹ They maintain that each of these products should be defined coextensive with its respective scope definition. While respondents agree that tissue paper and crepe paper should be defined as separate like products,²² they contend that tissue paper should be divided further into bulk tissue paper (*i.e.*, tissue paper sold to companies for in-store use, including wrapping of items sold to customers) and consumer tissue paper (*i.e.*, tissue paper ultimately marketed and sold to individual consumers).²³ For the reasons discussed below, for purposes of this preliminary determination, we find two separate domestic like products, tissue paper and crepe paper.

1. Whether tissue paper and crepe paper are separate like products

Both petitioners and respondents agree that tissue paper and crepe paper should be considered separate like products. Based on the traditional six-factor analysis, we find that tissue and crepe paper are two domestic like products.

Tissue and crepe paper are lightweight paper products, have a basis weight not exceeding 29 grams per square meter and share certain physical characteristics, such as a gauzy and/or fairly transparent appearance.²⁴ While tissue paper and crepe paper may be colored, decorated, or customized,

²⁰ 69 Fed Reg. 121128, 121129 (March 15, 2004). As noted in Commerce's scope, tissue paper products subject to this investigation do not have specific classification numbers assigned to them under the Harmonized Tariff Schedule of the United States ("HTSUS") and appear to be imported under one or more of the several different "basket" categories, including but not necessarily limited to the following HTSUS subheadings: 4802.30, 4802.54, 4802.61, 4802.62, 4802.69, 4804.39, 4806.40, 4808.30, 4808.90, 4811.90, 4823.90, 9505.90.40. As such, certain tissue paper products from China enter the United States duty-free under normal trade relations duty rates.

Similarly, crepe paper products subject to this investigation do not have specific classification numbers assigned to them under the HTS and likewise appear to be imported under one or more of the several different "basket" categories, including but not necessarily limited to the following HTSUS subheadings: 4802.30, 4802.54, 4802.61, 4802.62, 4802.69, 4804.39, 4806.40, 4808.30, 4808.90, 4811.90, 4823.90, 9505.90.40. As such, certain crepe paper products from China enter the United States duty-free under normal trade relations duty rates.

²¹ Petitioners' Brief at 3.

²² Transcript of Conference ("Tr.") at 193 (Mr. Perry).

²³ City Paper Respondents' Brief at 2; Target Brief at 4; Chinese Respondents' Brief at 1; and Cleo Respondents' Brief at 1. Although Respondents indicated at the conference that they might advance additional like products arguments, they did not do so. Tr. at 153, 189, and 194 (Mr. Perry).

²⁴ CR at I-3-I-5; PR at I-2-I-4; Petition at 5-6.

crepe paper differs from tissue paper in that it has a creped or wrinkled texture.²⁵ Crepe paper typically is sold in the form of streamers, although a small amount of crepe is folded.²⁶ Tissue paper generally is sold in the form of sheets.²⁷ Crepe paper and tissue paper also differ somewhat in chemical composition. Crepe paper is made from paper pulp containing a sizing agent and, unlike tissue paper, generally is flame-retardant.²⁸

To a large extent, the differences in physical characteristics in these two types of paper affect their end uses. Tissue paper generally is used for the packing or wrapping of products.²⁹ Crepe paper generally is used as a decoration, with a small amount of crepe paper folds sold for arts and craft end uses.³⁰

The interchangeability between tissue paper and crepe paper appears to be limited by the products' different physical characteristics. Crepe paper, which typically is cut into streamers, is most often used for decorative purposes.³¹ Tissue paper, on the other hand, typically is used for wrapping within a box or bag and decorative purposes.³² Lower grades³³ of white tissue paper have little decorative value and are used to stuff items such as shoes and handbags.³⁴

The record indicates that both tissue paper and crepe paper are sold both through distributors and retailers. Petitioners, however, state that crepe paper generally is sold to party stores while tissue paper typically is sold to retail establishments such as department stores, mass merchandisers or gifts shops.³⁵

Tissue paper and crepe paper have similar initial production processes. Both are made from a pulp mixture that is set into jumbo rolls of "tissue" paper.³⁶ However, the jumbo roll used in the manufacture of crepe paper differs from that used for tissue paper as it contains a sizing agent added to the pulp mixture to prevent disintegration.³⁷

The manufacture of tissue and crepe paper varies significantly once the jumbo rolls are set. Jumbo rolls for the manufacture of tissue paper undergo three basic converting operations, sheeting, folding, and packaging, to produce the finished product.³⁸ In contrast, jumbo rolls used in crepe paper manufacture are processed with flame retardant chemicals, creped, and then taken to a winder, which splits and winds the crepe paper into individual rolls for subsequent packaging.³⁹ Tissue paper and crepe

²⁵ Petition at 5-6, 31, 32; CR at I-5, I-12-I-13; PR at I-4-I-9.

²⁶ CR at I-13; PR at I-9.

²⁷ CR at I-6; PR at I-5.

²⁸ CR at I-13-I-14; PR at I-9-10; Petition at 32.

²⁹ CR at I-6; PR at I-4.

³⁰ CR at I-13; PR at I-9.

³¹ CR at I-13; PR at I-9.

³² CR at I-6; PR at I-4.

³³ The tissue paper industry recognizes four grades of white tissue paper based on the whiteness and brightness of the tissue paper. White tissue paper grades range in color and brightness from the whitest sheet (no. 1) through off-white shades to a light grey (no. 4). CR at I-5, I-6 and n.15; PR at I-4 and n.15; Tr. at 186-187.

³⁴ CR at I-6; PR at I-4.

³⁵ CR at I-11, I-15; PR at I-8, I-10-I-11; Petitioners' Brief at 3.

³⁶ CR at I-9-I-10; PR at I-10.

³⁷ CR at I-13; PR at I-10.

³⁸ CR at I-9-I-10; PR at I-7-8.

³⁹ Compare CR at I-9-I-10, I-13-I-14; PR at I-7-I-8, I-9-I-10.

paper are produced in different production facilities, using different equipment and employees.⁴⁰ Only one U.S. company manufactures both products, and it does so in different production facilities.⁴¹

Tissue and crepe paper are not considered by U.S. producers to be substitutes for one another.⁴² The record indicates that tissue paper frequently is sold at substantially lower prices than crepe paper.⁴³

In sum, while tissue and crepe paper have some similarities in physical characteristics, only crepe paper has a creped or wrinkled texture and generally is slit into narrow streamers. To a large degree, these distinctions result in different end uses, limited interchangeability, and differences in producer perceptions. Tissue and crepe paper undergo distinct finishing processes, and different production facilities and employees are used in the production of the two products. Finally, tissue and crepe paper appear to have different price levels. Therefore, we find that tissue and crepe paper are two domestic like products.

2. Whether bulk tissue paper and consumer tissue paper are separate like products

a. Arguments of the Parties

Respondents propose that there should be two tissue paper domestic like products: bulk tissue paper (tissue paper sold in reams for use by retail establishments) and consumer tissue paper (tissue paper sold for resale to individual consumers). Respondents argue that bulk tissue paper generally is sold in reams containing 480 flat sheets and packaged in polybags while consumer tissue paper is sold in smaller amounts (40 sheets or less per package) and “packaged in a manner designed to entice individual shoppers.”⁴⁴ They maintain that bulk tissue paper “tends toward plainness,” which makes it more suitable for stuffing such items as shoes and handbags, whereas consumer tissue paper, with its colorful patterns and packaging, generally is used for wrapping presents and decorating purposes.⁴⁵ Respondents emphasize that the end users of bulk tissue paper are retail establishments or dry cleaners, while consumers are the end users of consumer tissue paper.⁴⁶ Finally, they stress that consumer tissue paper undergoes further finishing processes than bulk tissue paper and consequently is priced higher than bulk tissue paper.⁴⁷

Petitioners argue that tissue paper products comprise a continuum of grades, sizes types, and colors of a single like product.⁴⁸ They stress that respondents’ proposed definition of like product would result in the segmentation of tissue paper based solely on the channels of distribution.⁴⁹ They maintain that bulk tissue paper and consumer tissue paper have no significant differences in physical characteristics, uses, production processes, interchangeability, or prices.⁵⁰

b. Analysis

⁴⁰ Petitioners’ Brief at 3.

⁴¹ Petitioners’ Brief at 3.

⁴² CR at I-11, I-14; PR at I-8, I-10.

⁴³ CR at I-12, I-15; PR at I-9, I-11; CR and PR at Tables V-I-V-5.

⁴⁴ City Paper Respondents Brief at 4.

⁴⁵ Cleo Respondents’ Brief at 5.

⁴⁶ City Paper Respondents’ Brief at 7.

⁴⁷ City Paper Respondents’ Brief at 30.

⁴⁸ Petitioners’ Brief at 5.

⁴⁹ Petitioners’ Brief at 6.

⁵⁰ Petitioners’ Brief at 7-8.

We provide the following comparison of bulk tissue paper to consumer tissue paper using the traditional six-factor like product analysis.

i. Physical Characteristics and Uses

Bulk and consumer tissue paper share many of the same physical characteristics. Both are made from jumbo rolls of tissue paper.⁵¹ Petitioners indicate that domestic producers maintain an inventory of different colored roll stock that can be used for processing consumer or bulk tissue paper.⁵² Both bulk and consumer tissue paper may be colored, decorated, or customized to meet certain customer specifications. The record indicates that a significant majority of consumer tissue paper is customized, while the percentage of bulk tissue paper that is customized varies significantly from producer to producer.⁵³ Respondents assert that bulk tissue paper “tends toward plainness” and generally is white, while consumer tissue paper is “more and more often characterized by patterns, colorful packaging, and die-cutting.”⁵⁴ Petitioners, however, stress that the vast majority of tissue paper sold to consumers in the U.S. market is either white or sold in solid colors and not the speciality types of tissue highlighted by respondents.⁵⁵ Petitioners also note that bulk tissue paper sold to retailers can be customized with the logo of the stores, be colored, or patterned.⁵⁶

One difference between consumer tissue paper and bulk tissue paper appears to be the manner in which it is packaged for sale. Typically, consumer tissue paper tends to be sold folded in packages of five to 120 sheets. Bulk tissue paper, on the other hand, generally is sold in reams (480 sheets), either as flat sheets or quire-folded sheets and is packaged either in poly-bags or sold in large boxes.⁵⁷ With reams, the format of the tissue folds varies.⁵⁸ Consumer tissue paper sold as “seasonal tissue folds” reportedly have higher sheet counts (90-120 sheets), as do “club packs” (120 to 400 sheets).⁵⁹

Both bulk and consumer tissue paper are used for wrapping within a box or bag and decorative purposes.⁶⁰ However, some lower grades or less bright grades of white tissue paper, with little decorative value, are sold as bulk tissue paper and are used principally as dunnage to stuff items such as shoes and handbags, and are sold as bulk tissue paper.⁶¹

ii. Interchangeability

⁵¹ CR at I-9-I-10; PR at I-7; Tr. at 56.

⁵² Tr. at 56.

⁵³ Crystal reported that *** of its domestically produced bulk tissue paper shipped in 2003 was customized, compared to *** of its domestically produced consumer tissue paper. Seaman and Flower City reported ***. For bulk tissue paper products, ***. CR at I-17 n. 91; PR at I-12 n. 91.

⁵⁴ Cleo Respondents’ Brief at 4; Tr. at 121.

⁵⁵ Petitioners’ Brief at 6. See note 37 supra.

⁵⁶ Petitioners’ Brief at 6; Tr. at 39, 65, 86.

⁵⁷ CR at I-6; PR at I-4-I-5. When tissue paper is quire-folded, a number of tissue paper sheets are folded together in half rather than folded individually.

⁵⁸ CR at I-6; PR at I-5.

⁵⁹ CR at I-6-I-7; PR at I-5.

⁶⁰ CR at I-17, II-1; PR at I-13, II-1.

⁶¹ CR at I-6; PR at I-4.

Respondents contend that bulk and consumer tissue paper are not interchangeable due to difference in quantities per package between consumer and bulk tissue paper.⁶² They maintain that individual consumers that purchase consumer tissue paper do not wish to purchase tissue paper in reams.⁶³ Petitioners indicate that club packs of consumer tissue paper having high sheet counts are sold by mass merchandisers to both individual consumers and small retail establishments.⁶⁴

As noted above, most bulk tissue paper and nearly all consumer tissue paper are used for wrapping items within a box or bag and decorative purposes.⁶⁵

iii. Channels of Distribution

Questionnaire responses indicate that in 2003, 56 percent of domestic shipments of consumer tissue paper were made directly to retailers and 44 percent were made through distributors.⁶⁶ As for bulk tissue paper, questionnaire responses indicate that in 2003, 74 percent of domestic shipments were made through distributors, 25 percent were made directly to retailers, and 1 percent were made directly to consumers.⁶⁷ It should be noted, however, that respondents assert certain firms specialize in consumer tissue paper and do not sell bulk tissue paper.⁶⁸

iv. Producer/Customer Perceptions

Petitioners note that consumers and retail establishments do not necessarily distinguish between consumer and bulk tissue paper given that club packs of consumer tissue paper are sold at mass merchandisers to both individual consumers and small retail establishments.⁶⁹

Respondents argue that purchasers' differing perceptions of bulk and consumer tissue paper are "reflected in the packaging of each product." According to respondents, consumer tissue paper is sold in small quantities and packaged to catch the consumer's eye, while bulk tissue paper is wrapped plainly for "business consumption."⁷⁰

⁶² City Paper Respondents' Brief at 13.

⁶³ Cleo Respondents' Brief at 4.

⁶⁴ Tr. at 40.

⁶⁵ CR at I-6; PR at I-4.

⁶⁶ CR at I-19; PR at I-14.

⁶⁷ CR at I-19; PR at I-14.

⁶⁸ Cleo Respondents' Brief at I-19. Although respondents do not provide the actual amounts sold, they indicate that high-end retailers (e.g., Saks, Nordstrom) and laundries buy bulk tissue paper for their own use, whereas party stores, gift stores, and low-end-retailers (e.g., Target, Wal-Mart) purchase consumer tissue paper for sale to consumers. City Paper Respondents' Brief at 7.

⁶⁹ Tr. at 40.

⁷⁰ Cleo Respondents' Brief at 9; Target Brief at 5.

v. Manufacturing Processes

Both bulk tissue and consumer tissue paper are made from jumbo rolls of “tissue” paper, although jumbo rolls used in the production of bulk tissue paper may be wider.⁷¹ Both bulk and consumer tissue paper undergo converting processes to produce the finished product.⁷² Conversion of jumbo rolls of tissue paper into bulk and consumer tissue paper involves the same three basic operations: sheeting, folding, and packaging of tissue paper.⁷³ Consumer tissue paper is more likely to undergo folding than bulk tissue paper, which is generally stacked in reams. Consumer and bulk tissue paper typically are packaged differently. The flat or quire-folded reams of “bulk tissue” paper may either be packaged in plastic wrap using “L” bagger equipment, which requires more manual labor to insert and seal the bag, or packaged directly in corrugated boxes without any plastic packaging.⁷⁴ Consumer tissue paper or folded sheets are packaged in plastic bags or paper bands.⁷⁵

Petitioners contend that all tissue paper shares the same manufacturing process, and that bulk grades and consumer grades may be produced in the same facility with common employees and similar processes.⁷⁶ They also note that consumer tissue paper and bulk tissue paper may be made from common inventories of jumbo rolls. Respondents indicate that certain manufacturing steps (such as printing) may be completed on the same equipment for both bulk and consumer tissue paper.⁷⁷ They maintain that the manufacture of consumer tissue paper begins with a design phase that can require an 18 month lead time. They also assert that bulk and consumer tissue paper are manufactured on different production lines or equipment and that bulk and consumer tissue are often manufactured in different factories or by different firms.⁷⁸

vi. Price

According to pricing data collected in this investigation, bulk tissue is priced at a level comparable to a larger sized package of consumer tissue paper, but lower than a smaller sized package.⁷⁹

vii. Conclusion

Bulk tissue paper and consumer tissue paper are made from jumbo rolls of “tissue” paper and thus share many of the same physical characteristics. Both bulk and consumer tissue paper may be plain white, colored, decorated, or customized to meet certain customer specifications. Consumer tissue paper typically is sold folded in smaller quantity packages, whereas bulk tissue paper is usually sold in unfolded reams; however, consumer tissue paper sold as “seasonal tissue folds” reportedly have higher sheet counts, as do “club packs,” which contain up to 400 sheets and may be sold flat. Both consumer and bulk

⁷¹ CR at I-18; PR at I-13. While noting there may be differences in jumbo roll size for consumer versus bulk tissue paper, petitioners also testified that domestic producers maintain an inventory of different colored roll stock that can be processed into either consumer or bulk tissue paper. Tr. at 56.

⁷² CR at I-10; PR at I-6-I-7.

⁷³ Tr. at 56.

⁷⁴ CR at I-10-I-11; PR at I-8.

⁷⁵ Petition at 6.

⁷⁶ Petitioners’ Brief at 8.

⁷⁷ Tr. at 125-126.

⁷⁸ Cleo Respondents’ Brief at 7; City Paper Respondents’ Brief at 10.

⁷⁹ CR at I-20; PR at I-14; *cf.* CR and PR at Table V-2 and CR and PR at Tables V-1-V-4 (prices for 5-sheet and 40-sheet folded tissue paper and unfolded reams).

tissue paper have common end uses as both are used for wrapping, although some bulk tissue paper is used for stuffing items. Both bulk tissue and consumer tissue paper appear to be produced through similar converting processes and on similar equipment. As for pricing practices, the record indicates that bulk tissue paper is priced somewhat lower on average than consumer tissue paper.

Based on the record, we do not define bulk tissue paper and consumer tissue paper as separate like products. There are overlaps in physical characteristics, end uses, production processes notwithstanding the differences in packaging, distribution, and prices. Given the overlaps, we do not find a clear dividing line between the products.⁸⁰ However, in any final phase investigation, we intend to collect additional information and to revisit the issue as to whether bulk tissue paper and consumer tissue paper should be characterized as a two domestic like products or instead whether any distinctions should be considered as a condition of competition.

Accordingly, we find two separate domestic like products: all tissue paper corresponding to the scope, and all crepe paper corresponding to the scope.

IV. DOMESTIC INDUSTRY AND RELATED PARTIES

A. Domestic Industry

The domestic industry is defined as the “producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”⁸¹ In defining the domestic industry, the Commission’s general practice has been to include in the industry all domestic production of the domestic like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.⁸²

Based on our finding that the domestic like product consists of two separate like products, tissue paper and crepe paper, we find two domestic industries consisting of: (1) all producers of tissue paper and

⁸⁰ Respondents point out in their briefs that in Folding Gift Boxes from China, Inv. No. 731-TA-921 (Final), USITC Pub. 3480 (Dec. 2001) the Commission found “give-away” boxes and “folding boxes” to be distinct products and declined to expand the scope to include “give-away” boxes as part of the domestic like product. However, in that case, the issue before the Commission was whether the definition of the domestic like product should be expanded beyond the scope. Here by contrast, the issue is whether the group of products within the scope of investigation should be divided into separate like products.

In Folding Gift Boxes, the Commission found that give-away boxes differed from folding boxes in a number of key respects. In particular, “give-away” boxes were generally plain white, while most for-sale gift boxes had distinctive holiday motifs and did not require additional external wrapping; for-resale gift box market was a largely seasonal or holiday business; production varied between the types of boxes, reflecting significant design-time and effort associated with the resale boxes that was not true for the “give-away” boxes; and there were substantial price differences between the two types of boxes. USITC Pub. 3480 at 5-7. In this investigation, both consumer and bulk tissue paper can be in plain white, solid colors, or patterns. Consumer tissue paper may or may not have distinctive motifs, and although its sales peak during the Christmas season, it not a seasonal product. Production processes for the two types of tissue paper are very similar and while some consumer tissue may require significant design time and effort, a sizeable portion of consumer tissue paper is either white or solid colors and consumer tissue paper and bulk tissue paper may be made from the same inventories of jumbo rolls.

⁸¹ 19 U.S.C. § 1677(4)(A).

⁸² See United States Steel Group v. United States, 873 F. Supp. 673, 681-84 (Ct. Int’l Trade 1994), aff’d, 96 F.3d 1352 (Fed. Cir. 1996).

(2) all producers of crepe paper. We note that both the tissue paper and crepe paper domestic industries consist of integrated producers and converters.⁸³

B. Related Parties

In defining the domestic industry, we must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to section 771(4)(B) of the Act. That provision of the statute allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers.⁸⁴ Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each case.⁸⁵

In this investigation, *** responding domestic producers of tissue paper and *** responding producer of crepe paper reported importing subject merchandise from China during the period examined. We therefore consider whether appropriate circumstances exist to exclude any of these companies from the pertinent industry as a related party.

Petitioners acknowledge that *** fall within the definition of a related party because these firms imported subject merchandise during the period examined.⁸⁶ However, they assert that appropriate circumstances do not exist to exclude any of these producers (including respondent Crystal) from the domestic tissue paper or crepe paper industries.⁸⁷ Respondents do not argue for the exclusion of any firm from the domestic industry. Respondents state that exclusion "might" be appropriate for Crystal given that Crystal is an importer and "benefitted" from its imports. They state that the Commission need not reach this issue, but should "exclude Crystal in assessing the conditions of competition in the industry."⁸⁸

Four domestic producers of tissue paper *** and Crystal imported subject merchandise during the period examined. With respect to ***, the record indicates that their subject import quantities were minimal when compared to their domestic production.⁸⁹ Additionally, their financial data do not suggest that they derived a substantial benefit from the importation of subject tissue paper during the period

⁸³ It appears to be uncontested that converters – who take jumbo rolls and make finished products from them -- should be included in the domestic industry.

⁸⁴ 19 U.S.C. § 1677(4)(B).

⁸⁵ Sandvik AB v. United States, 721 F. Supp. 1322, 1331-32 (Ct. Int'l Trade 1989), aff'd without opinion, 904 F.2d 46 (Fed. Cir. 1990); Empire Plow Co. v. United States, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987). The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude the related parties include: (1) the percentage of domestic production attributable to the importing producer; (2) the reason the U.S. producer has decided to import the product subject to investigation, i.e., whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market; and (3) the position of the related producers vis-a-vis the rest of the industry, i.e., whether inclusion or exclusion of the related party will skew the data for the rest of the industry. See, e.g., Torrington Co. v. United States, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), aff'd without opinion, 991 F.2d 809 (Fed. Cir. 1993). The Commission has also considered the ratio of import shipments to U.S. production for related producers and whether the primary interests of the related producers lie in domestic production or in importation. See, e.g., Melamine Institutional Dinnerware from China, Indonesia, and Taiwan, Inv. Nos. 731-TA-741-743 (Final), USITC Pub. 3016 (Feb. 1997) at 14 n.81.

⁸⁶ Petitioners' Brief at 4.

⁸⁷ Petitioners' Brief at 4.

⁸⁸ Cleo Respondents' Brief at 18 n.10. We do not address whether appropriate circumstances exist to exclude ***, because they did not complete their questionnaire responses. CR and PR at Table III-1, nn.1, 2, 5.

⁸⁹ CR and PR at Table III-1.

examined.⁹⁰ Thus, we find that appropriate circumstances do not exist to exclude these domestic producers from the domestic industry.

Crystal represented *** percent of total U.S. production of tissue paper in 2003, but the company is no longer a producer of tissue paper.⁹¹ In 2001, Crystal imported *** square meters of the subject merchandise, which was equivalent to *** percent of its U.S. production. In 2002, Crystal's imports increased to *** square meters, which was equivalent to *** percent of its U.S. production. In 2003, Crystal's imports reached *** square meters of subject merchandise. Because it shut down a domestic production facility, its imports were equivalent to *** percent of its production in 2003.⁹²

Despite this shift to importation, Crystal's domestic production was *** during the period examined.⁹³ Crystal states that the reason it imported subject merchandise was because it lost its supplier of jumbo tissue rolls and, without this supply of input product, it was forced to close its Mayville, Kentucky conversion plant.⁹⁴ It should be noted that Crystal filed a brief as a respondent in this investigation, and it indicated that it opposes the petition with respect to "consumer tissue paper," but takes no position with respect to "bulk tissue paper." Its financial results were the *** of eight domestic producers, reporting an *** percent *** in operating income in 2003.⁹⁵ While Crystal clearly has a substantial interest in importation, its production was substantial in 2001, 2002, and 2003. The record indicates that its domestic production operations did not benefit significantly financially from its import activities. On balance, we find that appropriate circumstances do not exist to exclude Crystal from the domestic industry. We will consider this issue further in any final phase investigation.

***, a domestic producer of crepe paper, imported subject merchandise during the period examined.⁹⁶ We note that *** imported a small volume of subject merchandise in relation to its domestic production.⁹⁷ Moreover, in light of its financial results for the years it imported, it appears that the domestic production of *** did not benefit significantly from its imports of subject merchandise.⁹⁸ We therefore find that appropriate circumstances do not exist to exclude *** from the domestic crepe paper industry.

V. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY LESS THAN FAIR VALUE IMPORTS OF TISSUE PAPER⁹⁹

In the preliminary phase of antidumping or countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially

⁹⁰ CR and PR at Table VI-2.

⁹¹ CR at III-7; PR at III-5; CR and PR at Table III-1.

⁹² CR and PR at Table III-1.

⁹³ CR and PR at Table III-1.

⁹⁴ CR at III-8 and n.29, but see CR at III-8 and n.28; PR at III-6 and n.29, but see PR at III-5 and n.28.

⁹⁵ CR and PR at Table VI-2.

⁹⁶ CR and PR at Table IV-1.

⁹⁷ CR and PR at Table III-1, n.3.

⁹⁸ *** reported ***. CR and PR at Table VI-6.

⁹⁹ 19 U.S.C. § 1677(24)(A)(I)(I). In this investigation, subject imports of tissue paper from China accounted for more than three percent of the volume of all tissue paper imported into the United States in the most recent 12-month period for which data are available preceding the filing of the petition. CR and PR at Table IV-2. As such, we find that subject imports of tissue paper from China are not negligible under 19 U.S. C. § 1677(24).

injured by reason of the imports under investigation.¹⁰⁰ In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.¹⁰¹ The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”¹⁰² In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.¹⁰³ No single factor is dispositive, and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”¹⁰⁴

Based on an evaluation of the relevant statutory factors, we find that there is a reasonable indication that the domestic industry producing tissue paper is materially injured by reason of subject imports from China.

A. Conditions of Competition

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of the subject imports of tissue paper from China.

Demand for tissue paper appears to be affected by the demand for gift bags and retailers’ overall retail sales.¹⁰⁵ Demand for tissue paper increases during the year-end holiday season.¹⁰⁶ Apparent U.S. consumption of tissue paper increased from 2.2 billion square meters in 2001, to 2.4 billion square meters in 2002, and to 2.5 billion square meters in 2003.¹⁰⁷

The increase in apparent U.S. consumption of tissue paper between 2001 and 2003 was due to increased shipments of consumer tissue paper, as shipments of bulk tissue paper declined modestly during the same period.¹⁰⁸ Apparent U.S. consumption of consumer tissue paper increased from *** square meters in 2001 to *** square meters in 2002, and to *** square meters in 2003.¹⁰⁹ Apparent U.S. consumption of bulk tissue paper increased from *** square meters in 2001 to *** square meters in 2002, and then decreased to *** square meters in 2003.¹¹⁰ U.S. shipments of subject imports of consumer tissue paper increased from *** square meters in 2001, to *** square meters in 2002, and to *** in 2003.¹¹¹ U.S. shipments of subject imports of bulk tissue paper increased from *** square meters in 2001, to *** square meters in 2002, and to *** square meters in 2003.¹¹²

¹⁰⁰ 19 U.S.C. §§ 1671b(a) and 1673b(a).

¹⁰¹ 19 U.S.C. § 1677(7)(B)(i). The Commission “may consider such other economic factors as are relevant to the determination” but shall “identify each [such] factor . . . [a]nd explain in full its relevance to the determination.” 19 U.S.C. § 1677(7)(B). See also Angus Chemical Co. v. United States, 140 F.3d 1478 (Fed. Cir. 1998).

¹⁰² 19 U.S.C. § 1677(7)(A).

¹⁰³ 19 U.S.C. § 1677(7)(C)(iii).

¹⁰⁴ 19 U.S.C. § 1677(7)(C)(iii).

¹⁰⁵ CR at II-3; PR at II-2-II-3.

¹⁰⁶ CR at II-4, n.6; PR at II-3, n.6

¹⁰⁷ CR and PR at Table IV-3.

¹⁰⁸ CR at II-4; PR at II-3.

¹⁰⁹ CR and PR at Table C-4.

¹¹⁰ CR and PR at Table C-5

¹¹¹ CR and PR at Table C-4.

¹¹² CR and PR at Table C-5.

Tissue paper is produced by integrated producers (those producers who produce jumbo rolls as well as tissue paper) and converters. During the period examined, the major producers of tissue paper included integrated producers, Seaman and Putney Paper, and converters, Garlock, Flower City, Eagle, and Crystal Creative.¹¹³ Crystal Creative ceased production of tissue paper in October 2003 and now exclusively imports subject merchandise.¹¹⁴ Seaman and Flower City are the only domestic producers of tissue paper that manufacture both bulk tissue paper and consumer tissue paper.¹¹⁵

Respondents argue that several domestic producers are vertically integrated, are capital intensive and thus require continuous production. Respondents further state that Chinese producers are not capital intensive operations. Therefore, they do not have to produce continually and they can offer more innovative products or packaging.¹¹⁶ We intend to explore this issue in any final phase investigation.

Domestic tissue paper production capacity was greater than total apparent U.S. consumption. U.S. production capacity was 3.68 billion square meters in 2001, 3.84 billion square meters in 2002, and 3.79 billion square meters in 2003.¹¹⁷

Nonsubject imports of tissue paper were minimal in the U.S. market in 2003. In 2003, the nonsubject import volume was *** square meters, with a market share of *** percent.¹¹⁸

The record indicates that there is a high degree of substitutability between domestic tissue paper and the subject imports of tissue paper. Nearly two-thirds of domestic producers and two-thirds of importers agree that the domestically produced tissue paper and subject imported tissue paper are always or frequently interchangeable.¹¹⁹ Moreover, the record indicates that price is a significant factor in the purchase of tissue paper, with few domestic producers and only a minority of importers reporting that non-price factors are frequently or always a significant factor in purchasing decisions.¹²⁰

B. Volume of Subject Imports

Section 771(7)(C)(i) of the Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”¹²¹

Subject import volume of tissue paper increased over the period examined by significant levels both absolutely and relative to domestic consumption and production. Subject import volume increased by *** percent from 2001 to 2003.¹²² The volume of subject imports increased from *** square meters in 2001 to *** square meters in 2002, and to *** square meters in 2003.¹²³

Subject imports’ market share dramatically increased from 2001 to 2003. U.S. shipments of subject imports accounted for *** percent of apparent U.S. consumption (by quantity) in 2001, ***

¹¹³ CR and PR at III-1 n.2. It appears to be uncontested that converters should be included in the domestic tissue paper industry.

¹¹⁴ CR and PR at III-1 n.2. We note that ***. Cleo Respondents’ Brief at 16. In any final phase investigation, we intend to more closely examine the reasons why it switched to importation.

¹¹⁵ CR at I-18; PR at I-13.

¹¹⁶ Cleo Respondents Brief at 12-15.

¹¹⁷ CR and PR at Table III-2.

¹¹⁸ CR and PR at Table IV-3.

¹¹⁹ CR and PR at Table II-1.

¹²⁰ CR and PR at Table II-2.

¹²¹ 19 U.S.C. § 1677(7)(C)(i).

¹²² Calculated from CR and PR at Table IV-2.

¹²³ CR and PR at Table IV-2.

percent in 2002, and *** percent in 2003.¹²⁴ *** of the market share gained by subject imports was at the expense of the domestic industry. Total subject imports of tissue paper were equivalent to *** percent of U.S. production (by volume) in 2001, *** percent in 2002, and *** percent in 2003.¹²⁵

We find for purposes of the preliminary phase of this investigation that subject import volume was significant during the period examined both in absolute terms and relative to apparent U.S. consumption and production.

C. Price Effects of the Subject Imports

Section 771(C)(ii) of the Act¹²⁶ provides that, in evaluating the price effects of subject imports, the Commission shall consider whether – (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.

As noted above, subject imports and the domestic like product are highly interchangeable and price is an important factor in purchasing decisions.

The Commission collected pricing data on four tissue paper products, three of which provided comparisons between the domestic product and the Chinese product. The data show that subject imports undersold the domestic like product in 23 out of the 33 calendar quarters in which comparisons between subject imports and the domestic product were possible. For product one, the Chinese product undersold the U.S. product in eleven of twelve quarters, with margins of underselling ranging from 2.8 percent to 34.7 percent.¹²⁷ In one quarter, the Chinese product oversold the U.S. product, with a margin of 0.2 percent. For product two, the Chinese product oversold the U.S. product in six quarters, with margins ranging from 6.5 percent to 110.2 percent. In three other quarters, the Chinese product undersold the domestic product with margins ranging from 13.8 percent to 95.5 percent.¹²⁸ For product three, in nine quarters, the Chinese product undersold the domestic like product with margins ranging from 15.7 percent to 30.7 percent. In the other three quarters, the Chinese product oversold the domestic product, with margins ranging from 4.0 percent to 23.2 percent.¹²⁹ For products one and three, any overselling occurred early in the period examined.¹³⁰ For product two, subject imports' overselling occurred more recently. This product, however, had the smallest volumes of any of the pricing products.¹³¹ We find the

¹²⁴ CR and PR at Table V-3. A large portion of subject imports of tissue paper from China were held in inventory throughout the period examined. The volume of subject imports held in inventory was *** square meters in 2001, *** square meters in 2002, and *** square meters in 2003. CR and PR at Table IV-2. U.S. shipments of subject imports of consumer tissue paper accounted for *** percent of apparent U.S. consumption of consumer tissue (by quantity) in 2001, *** percent in 2002, and *** percent in 2003. CR and PR at Table C-4. U.S. shipments of subject imports of bulk tissue paper accounted for *** percent of apparent U.S. consumption of bulk tissue paper (by quantity) in 2001, *** percent in 2002, and *** percent in 2003. CR and PR at Table C-5.

¹²⁵ CR and PR at Table IV-2.

¹²⁶ 19 U.S.C. § 1677(7)(C)(ii).

¹²⁷ CR and PR at Table V-1.

¹²⁸ Memorandum INV-BB-040 at Table V-2.

¹²⁹ CR and PR at Table V-3. No import prices were reported for pricing product four.

¹³⁰ CR and PR at Tables V-1 and V-3.

¹³¹ Memorandum INV-BB-040 at Table V-2.

underselling to be significant for purposes of this preliminary determination, particularly in light of the high level of interchangeability between the domestic product and subject imports.¹³²

Domestic prices for product one fluctuated with no clear trend.¹³³ For product two, domestic prices fell sharply but subject imports generally oversold the domestic product.¹³⁴ For product three, domestic prices declined somewhat over the period, and subject imports were priced consistently lower than domestic prices, with margins exceeding 20 percent in 2003.¹³⁵ For product four, domestic prices declined somewhat, but no prices were reported for subject imports.¹³⁶ We find that the record evidence on the effect of imports on domestic prices is mixed, but that it provides some evidence of price depression by subject imports.

Petitioners provided information on *** lost sales and lost revenue allegations.¹³⁷ Commission staff received information concerning *** of the lost sales allegations and *** lost revenue allegations. Staff was able to confirm *** lost sales totaling *** due to lower prices of subject imports.¹³⁸

We find for purposes of this preliminary determination that underselling has been significant and that the record reflects some evidence of price depression.

D. Impact of the Subject Imports¹³⁹

Section 771(7)(C)(iii) provides that the Commission, in examining the impact of the subject imports on the domestic industry, “shall evaluate all relevant economic factors which have a bearing on the state of the industry.”¹⁴⁰ These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered “within the context of the business cycle and conditions of competition

¹³² We evaluate average unit value data with caution, because they may be affected by differences in product mix. We note that the average unit values for U.S. shipments of domestically produced tissue paper were steady at \$0.06 per square meter in 2001, 2002, and 2003. CR at I-12; PR at I-9. By comparison, the average unit values for U.S. imports for subject imports of tissue paper from China were \$*** per square meter in 2001, 2002, and 2003. The average unit values of U.S. shipments of subject imports were \$*** per square meter in 2001, \$*** per square meter in 2001, and \$*** per square meter in 2003. CR at I-12, PR at I-9, as revised by Memorandum INV-BB-040, March 31, 2004. In any final phase investigation, we will further consider prices of subject merchandise, including prices of product imported directly by retailers.

¹³³ CR and PR at Table V-1.

¹³⁴ CR and PR at Table V-2.

¹³⁵ CR and PR at Table V-3.

¹³⁶ CR and PR at Table V-4.

¹³⁷ Petition at Ex. 35.

¹³⁸ CR and PR at Tables V-6 and V-7. While several purchasers switched for price reasons, several purchasers indicated that Chinese producers or importers of Chinese tissue paper were willing to be more flexible as to the type of product shipped (including specialty items such as die-cut paper), quantities shipped, packaging, and delivery. See also Tr. at 128-129 (Mr. Kelly); City Paper Respondents’ Brief at 18; Cleo Respondents’ Brief at 13. We intend to explore these issues in any final phase investigation.

¹³⁹ In its notice of initiation, Commerce estimated that dumping margins for imports of tissue paper to be 163.36 percent. 69 Fed. Reg 12128 (March 15, 2004).

¹⁴⁰ 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 (“In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.”) SAA at 885.

that are distinctive to the affected industry.”¹⁴¹

By most measures, the domestic industry’s condition worsened over the period examined despite increasing apparent U.S. consumption. The quantity and total value of domestic shipments decreased overall during the period examined.¹⁴² At the same time, the domestic producers’ market share decreased from 91.3 percent in 2001, to 86.6 percent in 2002, and to 66.1 percent in 2003.¹⁴³ Domestic capacity increased during the period examined, from 3.7 billion square meters in 2001, to 3.8 billion square meters in 2002 and 2003.¹⁴⁴ Domestic production increased from 2.0 billion square meters in 2001 to 2.2 billion square meters in 2002, and then declined to 1.7 billion square meters in 2003. Domestic capacity utilization rates fell overall: from 55.9 percent in 2001, utilization increased slightly to 57.2 percent in 2002, and then decreased to 45.4 percent in 2003,¹⁴⁵ even as shipments of subject import volumes increased over 300 percent over the same period. The number of workers fell between 2001 to 2003, and total wages paid also declined.¹⁴⁶

The domestic industry’s financial indicators worsened substantially over the period examined. Net sales values decreased along with net sales quantities from 2001 to 2003.¹⁴⁷ The domestic industry experienced deteriorating profitability from 2001 to 2003; operating income fell from \$7.9 million in 2001 to \$4.7 million in 2002, and to \$3.4 million in 2003, a decline of over 50 percent.¹⁴⁸ The domestic industry’s operating income as a ratio of net sales fell from 6.5 percent of sales in 2001, to 4.0 percent in 2002, and to 3.8 percent in 2003.¹⁴⁹ The domestic industry’s capital expenditures decreased from \$1.9 million in 2001 to \$1.4 million in 2002, and to \$997,000 in 2003.^{150 151}

As discussed above, we find both the volume of subject imports and the underselling of the subject imports to be significant. As subject imports captured significant market share and may have depressed U.S. prices, U.S. producers’ sales quantities and values declined contributing to lower operating income and profitability. We find a reasonable indication that subject imports have had a significant negative impact on the condition of the domestic industry during the period examined.

¹⁴¹ 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 at 25 n.148 (Feb. 1999).

¹⁴² U.S. shipments by quantity increased slightly from 2.0 billion square meters in 2001 to 2.1 billion square meters in 2002 but then decreased to 1.7 billion square meters in 2003. U.S. shipments by value increased slightly from \$116 million in 2003 to \$118 million in 2002, and decreased to \$92 million in 2003. CR and PR at Table III-2.

¹⁴³ CR and PR at Table IV-3.

¹⁴⁴ CR and PR at Table III-2

¹⁴⁵ CR and PR at Table III-2.

¹⁴⁶ CR and PR at Table III-4.

¹⁴⁷ CR and PR at Table VI-1.

¹⁴⁸ CR and PR at Table VI-1.

¹⁴⁹ CR and PR at Table VI-1.

¹⁵⁰ CR and PR at Table VI-4. We note that some of the decrease in the quantity and value of the domestic producers’ shipments is attributable to reduced sales by ***. Similarly, *** diminished operating income in 2002 also contributed to the reduction in the level of the operating income for the domestic industry as a whole. In 2003, however, *** experienced reduced operating losses, while the domestic industry experienced decreasing operating income. We further note that if *** data were excluded from the aggregate data for domestic industry, the operating profits as a ratio to net sales would still decline, from *** percent in 2001, to *** percent in 2002, and to *** percent in 2003. CR at VI-5; PR at VI-1. In any final phase of the investigation, we plan to examine further the impact of *** departure from the industry on the domestic industry’s performance.

¹⁵¹ None of the domestic producers reported research and development expenditures.

VI. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY LESS THAN FAIR VALUE IMPORTS OF CREPE PAPER ¹⁵²

Based on an evaluation of the relevant statutory factors, we find that there is a reasonable indication that the domestic industry producing crepe paper is materially injured by reason of subject imports from China.

A. Conditions of Competition

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of the subject imports of crepe paper.

Demand for crepe paper as measured by apparent U.S. consumption declined overall during the period examined. Apparent U.S. consumption for crepe paper increased from *** square meters in 2001 to *** square meters in 2002, but then declined to *** square meters in 2003.¹⁵³ Respondents attribute the decline in demand to the introduction of substitute products such as banners, paper or foiled garlands, and plastic streamers.¹⁵⁴

Crepe paper is produced by integrated producers (those who produce jumbo rolls as well as finished crepe paper) and converters. During the period examined, the major producers of crepe paper were Seaman and American Crepe, integrated producers, and Cindus, a converter.¹⁵⁵

Throughout the period examined, domestic production capacity for crepe paper was more than double total apparent U.S. consumption. U.S. crepe paper production capacity was steady at *** square meters in 2001, 2002, and 2003.¹⁵⁶

Nonsubject imports of crepe paper were present in the U.S. market in small quantities in 2002 and 2003. U.S. shipments of nonsubject imports of crepe paper were *** square meters in 2002, decreasing slightly to *** square meters in 2003.¹⁵⁷ Nonsubject import market share was *** percent in 2002 and *** percent in 2003.¹⁵⁸

The record indicates that there is a high degree of substitutability between domestic crepe paper and the subject imports of crepe paper. Nearly two-thirds of domestic producers and almost all importers agree that the domestically produced crepe paper and subject crepe paper are always or frequently interchangeable.¹⁵⁹ Moreover, the record indicates that price is a significant factor in the purchase of crepe paper, with few producers and only a minority of importers reporting that non-price factors are frequently or always a significant factor in purchasing decisions.¹⁶⁰

B. Volume of Subject Imports

¹⁵² 19 U.S.C. § 1677(24)(A)(I)(I). In this investigation, subject imports of crepe paper from China accounted for more than three percent of the volume of all tissue paper imported into the United States in the most recent 12-month period for which data are available preceding the filing of the petition. CR and PR at Table IV-4. As such, we find that subject imports of tissue paper from China are not negligible under 19 U.S. C. § 1677(24).

¹⁵³ CR and PR at Table IV-5.

¹⁵⁴ Tr. at 146.

¹⁵⁵ CR at IV-1 & n.2; PR at IV-1 & n.2. It appears to be uncontested that converters should be included in the domestic crepe paper industry.

¹⁵⁶ CR and PR at Table III-5.

¹⁵⁷ CR and PR at Table IV-5.

¹⁵⁸ CR and PR at Table IV-5.

¹⁵⁹ CR and PR at Table II-1; Producer and Importer Questionnaire Responses.

¹⁶⁰ CR and PR at Table II-2.

Section 771(7)(C)(i) of the Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”¹⁶¹

Subject import volume of crepe paper increased over the period examined by significant levels both absolutely and relative to domestic consumption and production. Subject import volume increased by *** percent from 2001 to 2003.¹⁶² The volume of subject imports increased from *** square meters in 2001 to *** square meters in 2002, and to *** square meters in 2003.¹⁶³

Subject imports’ market share dramatically increased from 2001 to 2003. All of the market share gained by subject imports came at the expense of domestic industry. U.S. shipments of subject imports accounted for *** percent of apparent U.S. consumption (by quantity) in 2001, *** percent in 2002, and *** percent in 2003.¹⁶⁴ Total subject imports of crepe paper were equivalent to *** percent of U.S. production (by quantity) in 2001, *** percent in 2002, and *** percent in 2003.¹⁶⁵

We find for purposes of the preliminary phase of this investigation that subject import volume was significant during the period examined both in absolute terms and relative to apparent U.S. consumption and production.

C. Price Effects of the Subject Imports

As noted above, subject imports and the domestic like product are highly interchangeable and price is an important factor in purchasing decisions.

The Commission collected quarterly pricing data from producers and importers on a standard crepe paper product. In the first seven quarters of 2001 and 2002, the Chinese product oversold the U.S. product, with margins ranging from 0.3 percent to 52.3 percent.¹⁶⁶ In the five most recent quarters of 2002-2003, however, the Chinese product undersold the U.S. product, with margins ranging from 5.0 percent to 17.1 percent.¹⁶⁷

Domestic prices increased modestly between 2001 and 2002, but generally fluctuated downward from 2002 to 2003 to a level that was approximately 5 percent to 10 percent below 2001 prices.¹⁶⁸

¹⁶¹ 19 U.S.C. § 1677(7)(C)(i).

¹⁶² Calculated from CR and PR at Table IV-4.

¹⁶³ CR and PR at Table IV-4.

¹⁶⁴ CR and PR at Table IV-5.

¹⁶⁵ CR and at Table IV-4.

¹⁶⁶ CR and PR at Table V-5. We evaluate average unit value data with caution, because they may be affected by differences in product mix. We note that the average unit values for U.S. shipments of domestically produced crepe paper were \$*** per square meter in 2001, 2002, and 2003. CR at I-15; PR at I-11. By comparison, the average unit values for U.S. imports for subject imports of crepe paper from China were \$*** per square meter in 2001, \$*** per square meter 2002, and \$*** per square meter 2003. CR at I-15; PR at I-11. The average unit values of U.S. shipments of subject imports were \$*** per square meter in 2001, \$*** per square meter in 2001, and \$*** per square meter in 2003. CR at I-15; PR at I-11. From 2001 to 2002, the average selling price of domestically produced crepe paper, declined by slightly more than the decline in the average of cost of goods sold. CR at VI-8; PR at VI-5. From 2002 to 2003, the average selling price of the domestic product decreased while the average cost of goods sold increased. CR at VI-8; PR at VI-5. We note that certain retailers may directly import subject merchandise from China. In any final phase investigation, we will collect and analyze further prices of subject merchandise imported directly by retailers.

¹⁶⁷ CR and PR at Table V-5.

¹⁶⁸ CR and PR at Table V-5.

Chinese import prices plummeted beginning in early 2002, following an increase in the volume of subject imports.¹⁶⁹

Based on the record in the preliminary phase of this investigation, and in light of our finding of a significant volume of subject imports, the high level of substitutability of the subject imports and domestic product, and declining domestic prices, we find that subject imports have depressed domestic prices to a significant degree.

D. Impact of the Subject Imports¹⁷⁰

By most measures, the domestic industry's condition worsened over the period examined. The quantity and total value of domestic shipments decreased from 2001 to 2003, outpacing the decline in apparent U.S. consumption.¹⁷¹ The domestic producers' market share decreased from *** percent in 2001, to *** percent in 2002, and to *** percent in 2003.¹⁷² Domestic production capacity remained steady at *** square meters in 2001, 2002, and 2003. At the same time, domestic production decreased from *** square meters in 2001, to *** square meters in 2002, and to *** square meters in 2003.¹⁷³ Domestic capacity utilization rates fell from *** percent in 2001 to *** percent in 2002, and then to *** percent in 2003.¹⁷⁴ The number of workers as well as total wages declined from 2001 to 2003.¹⁷⁵

The domestic industry's financial indicators worsened substantially over the period examined. Net sales values decreased from 2001 to 2003.¹⁷⁶ The domestic industry experienced deteriorating profitability from 2001 to 2003; operating income fell from \$*** in 2001 to \$*** in 2002, and to a *** of \$*** in 2003.¹⁷⁷ The domestic industry's operating profits as a ratio to net sales fell from *** percent in 2001, to *** percent in 2002, and to *** percent in 2003.¹⁷⁸ The domestic industry's capital expenditures decreased from \$*** in 2001 to \$*** in 2002, then increased *** to \$*** in 2003.¹⁷⁹

As discussed above, we find both the volume of subject imports and the negative price effects of the subject imports to be significant. In light of the significant volume and negative price effects of subject imports and the worsening condition of the domestic industry, we find a reasonable indication that subject imports have had a significant negative impact on the condition of the domestic industry.

CONCLUSION

For the reasons stated above, we determine that there is a reasonable indication that an industry in the United States is materially injured by reason of subject imports of certain tissue paper from China allegedly sold in the United States at less than fair value. We also determine that there is a reasonable

¹⁶⁹ CR and PR at Tables V-5, IV-4.

¹⁷⁰ In its notice of initiation, Commerce estimated that dumping margins for imports of crepe paper to be 266.83 percent. 69 Fed. Reg 12128 (March 15, 2004).

¹⁷¹ CR and PR at Table IV-5.

¹⁷² CR and PR at Table IV-5.

¹⁷³ CR and PR at Table C-2.

¹⁷⁴ CR and PR at Table III-3.

¹⁷⁵ CR and PR at Table III-7.

¹⁷⁶ CR and PR at Table VI-5.

¹⁷⁷ CR and PR at Table VI-5.

¹⁷⁸ CR and PR at Table VI-5.

¹⁷⁹ CR and PR at Table VI-8. None of the domestic producers reported research and development expenditures.

indication that an industry in the United States is materially injured by reason of subject imports of certain crepe paper from China allegedly sold in the United States at less than fair value.

PART I: INTRODUCTION

BACKGROUND

This investigation results from a petition filed by Seaman Paper Company of Massachusetts, Inc. (“Seaman”); American Crepe Corporation (“American Crepe”); Eagle Tissue LLC (“Eagle”); Flower City Tissue Mills Co. (“Flower City”); Garlock Printing & Converting, Inc. (“Garlock”); Paper Service Ltd. (“Paper Service”); Putney Paper Co., Ltd. (“Putney”); and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO, CLC (“PACE”) (collectively “Petitioners”) on February 17, 2004, alleging that industries in the United States are materially injured and threatened with material injury by reason of less-than-fair-value (LTFV) imports of certain tissue paper products and crepe paper products from China.¹ Information relating to the background of the investigation is presented below.²

<u>Date</u>	<u>Action</u>
February 17, 2004 . . .	Petition filed with Commerce and the Commission; institution of Commission investigation (69 FR 8232, February 23, 2004)
March 9, 2004	Commission’s conference ³
March 15, 2004	Commerce’s notice of initiation (69 FR 12128)
April 1, 2004	Scheduled date for the Commission’s vote
April 2, 2004	Commission determination due to Commerce

PREVIOUS AND RELATED INVESTIGATIONS

The Commission has not previously conducted antidumping or countervailing duty investigations concerning tissue paper or crepe paper. In 2001, the Commission conducted an investigation on folding gift boxes from China, issuing a final affirmative determination in December of that year.⁴

ORGANIZATION OF THE REPORT

Information on the subject merchandise, alleged dumping margins, and the domestic like product is presented in Part I. Information on conditions of competition and other economic factors is presented in Part II. Information on the condition of the U.S. industries, including data on capacity, production, shipments, inventories, and employment, is presented in Part III. Information on the volume of imports of the subject merchandise, apparent U.S. consumption, and market shares is presented in Part IV. Part V presents data on prices in the U.S. market. Part VI presents information on the financial experience of U.S. producers. Information on the subject country foreign producers and U.S. importers’ inventories is presented in Part VII.

¹ The merchandise subject to this investigation, certain tissue paper and crepe paper, is described in the section entitled *The Subject Products* in Part I of this report.

² *Federal Register* notices cited in the tabulation are presented in app. A.

³ A list of witnesses appearing at the conference is presented in app. B.

⁴ *Folding Gift Boxes from China*, Inv. No. 731-TA-921 (Final), USITC Pub. 3480 (December 2001).

SUMMARY OF DATA PRESENTED IN THE REPORT

A summary of data collected in the investigation is presented in appendix C, tables C-1 through C-8. Except as noted, U.S. industry data are based on questionnaire responses of 11 firms that accounted for nearly all of U.S. production of certain tissue paper products and crepe paper products during 2003. U.S. imports are based on questionnaire data.

THE NATURE AND EXTENT OF ALLEGED SALES AT LTFV

On March 15, 2004, Commerce published its notice of initiation in the *Federal Register*. Based on petitioners' comparisons of export price to normal value, the estimated dumping margin for tissue paper is 163.36 percent and the estimated dumping margin for crepe paper is 266.83 percent. Commerce's anticipated period of investigation for both certain tissue paper products and certain crepe paper products is July 1, 2003 through December 31, 2003.⁵

SUMMARY OF MARKET PARTICIPANTS

The domestic industry producing certain tissue paper consists of 16 companies, the largest of which are ***. At least 30 U.S. companies are known to import certain tissue paper from China, including six companies that currently or formerly produced certain tissue paper domestically. The largest importers are ***. There are few known importers of certain tissue paper from countries other than China. The largest purchasers of certain tissue paper include TJ Maxx and May Department Stores, both of which purchase the product in bulk for wrapping merchandise purchased by their customers ("bulk" tissue paper), and Wal-Mart and Target, both of which purchase folded tissue paper for sale to consumers ("consumer" tissue paper).⁶

The domestic industry producing certain crepe paper consists of four companies, the largest of which are ***. At least 10 U.S. companies are known to import certain crepe paper from China, two of which, ***, currently produce certain crepe paper domestically. The largest importers are ***. There are virtually no known importers of certain crepe paper from countries other than China. The largest purchasers of certain crepe paper include ***.⁷

THE SUBJECT PRODUCTS

Commerce's Scope

Commerce instituted two separate investigations of the subject merchandise. The products covered by these two investigations are: (1) certain tissue paper products, and (2) certain crepe paper products from China. Commerce has defined these products as follows:

The **tissue paper products** subject to investigation are cut-to-length sheets of tissue paper having a basis weight not exceeding 29 grams per square meter. Tissue paper products subject to this investigation may or may not be bleached, dye-colored, surface-colored, glazed, surface decorated or printed, sequined, crinkled, embossed, and/or die cut. The tissue paper subject to this investigation is in the form of

⁵ See 69 FR 12128, March 15, 2004.

⁶ *Petition*, p. 12. The petition identifies 12 additional companies that purchase substantial volumes of tissue paper: ***. *Petition*, exhibit 9.

⁷ *Petition*, exhibit 35; questionnaire responses of ***, question IV-C, p. 22.

cut-to-length sheets of tissue paper with a width equal to or greater than one-half (0.5) inch. Subject tissue paper may be flat or folded, and may be packaged by banding or wrapping with paper or film, by placing in plastic or film bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of tissue paper subject to this investigation may consist solely of tissue paper of one color and/or style, or may contain multiple colors and/or styles. Excluded from the scope of the investigation are the following tissue paper products: (1) tissue paper products that are coated in wax, paraffin, or polymers, of a kind used in floral and food service applications; (2) tissue paper products that have been perforated, embossed, or die-cut to the shape of a toilet seat, i.e., disposable sanitary covers for toilet seats; (3) toilet or facial tissue stock, towel or napkin stock, paper of a kind used for household or sanitary purposes, cellulose wadding, and webs of cellulose fibers (HTS 4803.00.20.00 and 4803.00.40.00).

The **crepe paper products** subject to investigation have a basis weight not exceeding 29 grams per square meter prior to being creped and, if appropriate, flameproofed. Crepe paper has a finely wrinkled surface texture and typically but not exclusively is treated to be flame-retardant. Crepe paper is typically but not exclusively produced as streamers in roll form and packaged in plastic bags. Crepe paper may or may not be bleached, dye-colored, surface-colored, surface decorated or printed, glazed, sequined, embossed, die-cut, and/or flame-retardant. Subject crepe paper may be rolled, flat or folded, and may be packaged by banding or wrapping with paper, by placing in plastic bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of crepe paper subject to this investigation may consist solely of crepe paper of one color and/or style, or may contain multiple colors and/or styles.⁸

U.S. Tariff Treatment

As noted in Commerce's scope, tissue paper products subject to this investigation do not have separate tariff treatment in the Harmonized Tariff Schedule of the United States ("HTSUS") and appear to be imported under one or more of the several different residual or "basket" categories, including but not necessarily limited to the following HTSUS subheadings: 4802.30, 4802.54, 4802.61, 4802.62, 4802.69, 4804.39, 4806.40, 4808.30, 4808.90, 4811.90, 4823.90, and 9505.90.40. As such, certain tissue paper products from China enter the United States free of duty under the general or normal trade relations column of the HTSUS.

Similarly, crepe paper products subject to this investigation do not have distinct tariff or statistical categories assigned to them under the HTSUS and likewise appear to be imported under one or more of the several different "basket" categories, including but not necessarily limited to the following HTSUS subheadings: 4802.30, 4802.54, 4802.61, 4802.62, 4802.69, 4804.39, 4806.40, 4808.30, 4808.90, 4811.90, 4823.90, and 9505.90.40. As such, certain crepe paper products from China enter the United States free of duty at normal trade relations rates.

⁸ Tariff treatment of these products is presented in the next section of this report. Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope is dispositive.

General

The tissue paper and crepe paper products subject to this investigation are produced from flat tissue paper,⁹ rather than dry creped tissue paper such as that used for sanitary and other household purposes.¹⁰ The term “tissue paper” refers to a class of lightweight paper that generally exhibits a gauze-like, fairly transparent character and that has a basis weight¹¹ of less than 29 grams per square meter (18 pounds per 3,000 square feet).¹² The key performance characteristics of the subject tissue and crepe paper products include appearance, strength, and durability.¹³ The principal upstream product for the subject tissue and crepe paper products is flat tissue paper in rolls, often referred to as “jumbo rolls.”

Certain Tissue Paper Products

Physical Characteristics and Uses

As noted in Commerce’s scope, certain tissue paper products are cut-to-length sheets that may be colored, decorated, or customized in a variety of ways and that are sold either flat or folded. Although certain tissue paper is available in dozens of different colors and both standard and custom printed designs, white tissue paper is a large part of the U.S. market.¹⁴ The industry recognizes four different grades of white tissue based on the whiteness and brightness of the tissue paper.¹⁵ In-scope tissue paper generally is used for internal wrapping within a box or bag and decorative purposes.¹⁶ Lower grades of white tissue paper have little decorative value and are used principally as dunnage to stuff items such as shoes and handbags.¹⁷

Certain tissue paper products are available in an array of packaging options; format, sheet count, sheet size, and package size all vary.¹⁸ “Bulk” tissue paper usually is sold to retail businesses, generally

⁹ Flat tissue paper is not creped during the paper making process. ***, interview by USITC Staff, ***, Feb. 27, 2004, and “3.10 Tissue Grades,” found at http://www.paperloop.com/toolkit/paperhelp/3_10.shtml and retrieved on Mar. 8, 2004.

¹⁰ This includes tissue papers used for toilet or facial tissue, towels, napkins, and other similar uses.

¹¹ Basis weight is a traditional measure of the weight of paper, expressed as the weight in pounds of a ream of paper (traditionally 500 24-inch by 36-inch sheets). Therefore, the basis is 3,000 square feet (6 square feet per sheet times 500 sheets). However, for certain types of paper, including tissue, 480-sheet reams have become the accepted industry standard, thus confusing comparisons of paper weights. For the purposes of this section, basis weights reflect a basis of 3,000 square feet. Metric paper weights are expressed in terms of grams per square meter.

¹² *The Dictionary of Paper*, American Paper Institute, 4th ed., (Philadelphia: Winchell, 1980), p. 419.

¹³ *Petition*, pp. 5, 30.

¹⁴ *Conference Transcript*, testimony of William Shafer, president, Flower City, p. 26; testimony of George Jones, president, Seaman, p. 64; and testimony of Robert Moreland, president, Standard Quality, p. 186.

¹⁵ White tissue grades range in color and brightness from the whitest sheet (no. 1) through off-white shades to a light grey (no. 4). Brightness is measured relative to a known standard and expressed as a percentage of that standard. Consumer tissue paper requires a brightness of 80 or greater. *Conference Transcript*, testimony of Robert Moreland, president, Standard Quality, pp. 186-187; testimony of Sheldon Freeman, product manager, Wego, p. 186; testimony of Andrew Kelly, president, Cleo, p. 191; and “2.6.1 Brightness,” found at http://www.paperloop.com/toolkit/paperhelp/2_6_1.shtml and retrieved on Mar. 12, 2004.

¹⁶ *Petition*, p. 5.

¹⁷ *Conference Transcript*, testimony of Sheldon Freeman, product manager, Wego, p. 187.

¹⁸ ***, interview by USITC Staff, ***, Feb. 27, 2004.

in reams (480 sheets), which are packaged in plastic bags either as flat sheets or quire-folded sheets.¹⁹ Low grades of white tissue paper may not be packaged in plastic or counted. Instead, the paper is weighed, packed directly in corrugated containers, and sold in 38-pound boxes.²⁰ Tissue folds, which generally are consumer products (and hence may be referred to as “consumer” tissue paper), commonly are sold in smaller quantities (e.g., 5 to 40 sheets).²¹ Seasonal tissue folds, however, reportedly have higher sheet counts (e.g., 90 to 120 sheets) than every-day consumer tissue paper packages.²² Common sheet sizes for certain tissue paper products include 20 inches x 20 inches, 20 inches x 24 inches, 20 inches x 26 inches, and 20 inches x 30 inches.²³ As with reams, the format of the tissue fold varies. Common formats include 4 inch x 10 inch, 4 inch x 20 inch, and 8 inch x 20 inch packages.²⁴ The size of the package is not indicative of the size of the sheet, which may be the same across different package formats. Tissue folds usually are packaged either in plastic or banded,²⁵ but the outer sheet of tissue may be printed as the wrapper.²⁶ The sheet count of another package format, the club pack, usually falls between tissue folds and reams (120 to 400 sheets).²⁷ Club packs may be either flat or folded and generally are sold to shoppers club retailers (warehouse stores).²⁸

Special tissue packages include stepped folds (assortment packs folded so that the consumer can see all of the colors or designs in the package)²⁹ and combination packs (which also may include such items as mylar, fabric, non-woven, or poly sheets).³⁰ Specialty tissue papers may be dip-dyed,³¹ die-cut,³² handmade,³³ hot-stamped with shiny designs,³⁴ or spot-glitter printed.³⁵ While conference testimony by respondents suggested that certain tissue paper from China may be available in product combinations (e.g., die-cut or hot-stamped) and packaging options (e.g., re-sealable “poly” bags) that are not offered by

¹⁹ Reportedly, regional market preferences vary; the East Coast prefers flat reams, and the West Coast prefers quire-folded reams. ***, interview by USITC Staff, ***, Feb. 27, 2004.

²⁰ *Conference Transcript*, testimony of Robert Moreland, president, Standard Quality, p. 200.

²¹ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 121.

²² Industry officials described seasonal tissue as that which is decorated with holiday motifs or traditional holiday colors (e.g., red and green), and every-day tissue as that which is white or decorated in generic designs or colors. ***, interview by USITC Staff, ***, Feb. 27, 2004.

²³ *Conference Transcript*, testimony of Ted Tepe, vice president consumer products, Seaman, p. 114.

²⁴ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 122.

²⁵ *Conference Transcript*, testimony of Bonita Rooney, senior buyer, Target Stores, p. 133.

²⁶ ***, interview by USITC Staff, ***, Feb. 27, 2004.

²⁷ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 4.

²⁸ ***, interview by USITC Staff, ***, Feb. 27, 2004.

²⁹ ***, interview by USITC Staff, ***, Feb. 27, 2004.

³⁰ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 123.

³¹ Dip-dyed tissue paper is not colorfast and is used for arts and craft end uses. ***, interview by USITC Staff, ***, Feb. 27, 2004.

³² Die-cut tissue paper may have scalloped edges or a regular pattern of small cut-out designs or shapes.

³³ *Conference Transcript*, testimony of Bonita Rooney, senior buyer, Target Stores, p. 139.

³⁴ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 123.

³⁵ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 5.

the more automated domestic industry,³⁶ testimony from U.S. producers stressed advanced dyeing and printing capabilities and noted the introduction and limited continued production of die-cut tissue.³⁷

Manufacturing Facilities and Production Employees

The domestic industry producing certain tissue paper products is believed to include some 16 firms, ***, Seaman, also produces certain crepe paper, albeit using a distinct process and with different equipment.³⁸ Because the U.S. paper mills that make certain tissue paper products do not have integrated pulp mills,³⁹ they rely on purchases of market pulp.⁴⁰ Wood pulp, recycled fiber, and water are put into a repulper (essentially a very large blender) along with dyes and chemical additives.⁴¹ A revolving agitator in the repulper stirs the mixture thereby separating the pulp and/or waste paper into their constituent fibers. Next, refiners clean and condition the pulp slurry before it is pumped to storage chests to await delivery to the paper machine.

The firms in the U.S. industry with paper mills operate or have recently operated approximately 17 paper machines⁴² (13 fourdrinier and 4 cylinder machines),⁴³ which have an average width of 96 inches. Regardless of the type of paper machine, a thin sheet (web) of pulp is formed in a continuous process. Water drains from the sheet as it is formed and conveyed to the press section. The press forms the sheet and squeezes out more water, after which the sheet enters the drier (either a conventional or Yankee drier).^{44 45} As the paper exits the drier, it is wound onto a large reel. Once filled, the reel is

³⁶ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, pp. 128-129.

³⁷ *Conference Transcript*, testimony of George Jones, president, Seaman, pp. 73-74, and testimony of Ted Tepe, vice president consumer products, Seaman, pp. 74-75.

³⁸ *Conference Transcript*, testimony of George Jones, president, Seaman, p. 22.

³⁹ *Lockwood-Post's Directory 2000*.

⁴⁰ Fiber comes from wood pulp, waste paper (i.e., recycled fiber) or a combination of both depending on the grade. Lower grades may be made entirely from post-consumer recycled fiber. *Conference Transcript*, testimony of Robert Moreland, president, Standard Quality, p. 186. Pre-consumer recycled fiber may be used to avoid the contaminants in post-consumer recycled fiber. Wood pulp is necessary to achieve the required strength in tissue papers and is principally bleached, softwood kraft, which has relatively long fibers. "Kraft" denotes the chemical process (a.k.a. sulfate) by which the wood is pulped and is the most important chemical pulp because of its strength.

⁴¹ The tissue paper made from dyed pulp is colorfast, which is a key performance specification. ***, interview by USITC Staff, ***, Feb. 27, 2004. Chemical additives include whiteners, fixatives, and sulphuric acid. *Petition*, p. 10.

⁴² *Lockwood-Post's Directory 2000*.

⁴³ Named for the Frenchman who helped popularize the design, fourdriniers have a continuous loop of bronze mesh screen, called the "wire." Typically, the wire is looped horizontally around rollers at both ends. As the wire revolves, pulp is spread across one end of the wire. Water drains through the wire as it advances thereby forming the sheet (web), which is removed from the other end as it enters the press. In this fashion, a continuous sheet of paper is formed. Cylinder machines are so called because the sheet (web) is formed on the surface of a large, rotating cylinder that is partially submerged in a vat containing the pulp. The sheet is picked off the cylinder by a rotating felt and conveyed to the press section.

⁴⁴ A conventional drier has two or more tiers of steam-heated cylinders (30 to 60 inches in diameter), and the paper passes over and under successive cylinders. The result is an unburnished finish (machine finish or MF). A Yankee drier consists of one large, steam-heated cylinder (9 to 15 feet in diameter) and is effective in drying lightweight papers. The cylinder is polished, and the resulting paper has a hard, smooth finish (especially suited for tissue paper to be printed with intricate designs). "11.8.8 MG (Yankee) and Related Dryers," found at http://www.paperloop.com/tollkit/paperhelp/11_8_8_key.shtml and retrieved Mar. 8, 2004; ***, interview by USITC (continued...)

hoisted by an overhead crane to a winder that is in line with the back end of the paper machine. The winder unwinds the reel, slits the sheet to the appropriate width, and rewinds the sheet onto paperboard cores. The resulting jumbo rolls are wrapped with kraft paper or shrink wrap for protection during transit.⁴⁶ Roll diameters and widths vary depending on the attributes of the converting equipment for which the paper is intended.⁴⁷ If necessary, tissue paper (and crepe paper) products are printed on high speed, multi-color, web-fed (rotary), flexographic presses.⁴⁸ Modern presses yield intricate graphic designs and greatly increase manufacturers' printing capacity.⁴⁹ Customers may have their own seasonal designs, and their tissue purchases may become part of a coordinated product line.⁵⁰

Jumbo rolls are the principal upstream product for the converting operations that produce certain tissue paper products. Jumbo rolls intended for bulk and consumer tissue paper may be produced from the same reel of tissue paper. Bulk and consumer tissue paper often are printed on the same presses⁵¹ and typically share the same basic converting process,⁵² which includes sheeting, folding, and packaging. Because tissue paper is lightweight and lacks stiffness, it is not possible to cut individual sheets.⁵³ Therefore, converting lines have multiple back stands (i.e., roll stands),⁵⁴ and multiple sheets (commonly 10 or 24⁵⁵ sheets) are converted simultaneously to ensure that the web has enough rigidity to feed properly. Electric charges may be imparted to the sheets in order to "pin" them together.⁵⁶ Generally, sheeters are rotary knives that cut the tissue paper at regular intervals as the web advances through the machine. Wider sheeters may also slit the web longitudinally in addition to the perpendicular cuts being made by the rotary knife. Guillotines also are used to cut large quantities of sheets to size at one time.

Production of tissue folds requires the paper be folded in two directions, both parallel and perpendicular to the direction of the machine. On a particular converting line, the folding equipment may

⁴⁴ (...continued)

Staff, ***, Feb. 27, 2004.

⁴⁵ To produce dry creped tissue paper a doctor blade must be mounted on the back side of the Yankee drier. The sheet is crowded against the doctor blade as it is removed from the drier, thereby creping the sheet and improving its softness, a fundamental feature of sanitary tissue and toweling stock. Sloan, James H., "How to maximize the dry crepe process," *Tappi Journal*, Aug. 1994, p. 298.

⁴⁶ The meaning of the term, "jumbo roll," varies across the paper industry but in this context means nothing more than a roll of tissue paper as it comes off the back end of the winder. One traditional meaning of the term, "jumbo roll," is a roll greater than 24 inches in diameter and weighing more than 500 lbs. In the packaging and printing industries, corrugators and printing presses have grown in size, often exceeding 100 inches in width. Therefore, the term now refers to rolls of paper that are 100 inches or more in width.

⁴⁷ The diameter (24 to 40 inches) and the width of a jumbo roll vary depending on the height of the back stands (i.e., rolls stands) and width of the converting equipment. ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁴⁸ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁴⁹ Flexographic presses have raised rubber plates (analogous to a rubber stamp) from which ink is transferred to paper. Modern printing presses utilize features such as laser manufacturing of printing plates and automatic registration. Presses can be monitored remotely by the manufacturer to ensure peak operating condition. Richter, Jochen, "Flexo Printing Keeps Advancing," *Official Board Markets*, Vol. 79, No. 36, Sep. 6, 2003, p. 1, and ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁵⁰ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁵¹ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 7.

⁵² *Petition*, p. 31.

⁵³ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁵⁴ *Conference Transcript*, testimony of George Jones, president, Seaman, p. 20.

⁵⁵ Twenty-four sheets equals a quire (one twentieth of a ream) based on a 480 sheet ream.

⁵⁶ ***, interview by USITC Staff, ***, Feb. 27, 2004.

be interspersed with the sheeting equipment. Folds made parallel to the machine flow are made before sheeting while the paper is still a continuous web. Then, the folded web is cut with a rotary sheeter as described above. Once cut to size, the sheets are folded perpendicular to machine flow by a tucker; additional tucks may be made depending on the size of the package.⁵⁷ Stepped folds are made by offsetting different colored rolls by 1 inch on the roll stands. The offset is maintained throughout folding and sheeting, and once packaged, the different colors can be seen through the package.⁵⁸

Once sheeting and folding are complete, tissue paper may be packaged in a variety of ways. In a continuous process, form, fill, and seal equipment automatically wraps a tissue fold in plastic film and seals the ends of each package. A three step process is used for preformed plastic bags. A jet of air opens the mouth of the bag, the tissue fold is inserted, and the open end is sealed. Larger, hard to handle products (e.g., flat and quire-folded reams) may be packaged in plastic wrap using "L" bagger equipment, which requires more manual labor to insert the product and seal the bag. If necessary, a certain number of individual packages may be further packed in wholesale bags, which help the distributors control their shipments and quantities. Finally, the individual packages or wholesale packages are packed manually into corrugated containers for shipping.

Interchangeability and Customer and Producer Perceptions

As discussed in greater detail in Part II of the staff report, certain tissue paper potentially faces several substitute products. Certain crepe paper, however, is not considered by either U.S. producers or U.S. importers to be one of those substitute products, nor are various forms of dry creped tissue paper (e.g., sanitary and other household tissue paper).

Notwithstanding reportedly greater U.S. sales of certain specialty forms of consumer tissue paper from China, domestically produced tissue paper and tissue paper from China appear to be largely interchangeable. Both U.S. producers and U.S. importers reportedly perceive certain tissue paper produced in the United States and in China to be “always” or “frequently” interchangeable.⁵⁹

Channels of Distribution

According to the petition, certain tissue paper products are sold through both distributors and retailers.⁶⁰ Questionnaire responses indicate that, with respect to domestically produced certain tissue paper products, 64 percent of U.S. shipments in 2003 were made through distributors and 36 percent were made directly to retailers (with very minor shipments directly to final consumers). With respect to certain tissue paper products from China, questionnaire responses indicate that 10 percent of U.S. shipments in 2003 were made through distributors, 86 percent were made directly to retailers, and 4 percent were made directly to final consumers.⁶¹

⁵⁷ *Conference Transcript*, testimony of George Jones, president, Seaman, p. 117.

⁵⁸ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁵⁹ For additional details on interchangeability and customer and producer perceptions, please see Part II, “Supply and Demand Considerations” and “Substitutability Issues.”

⁶⁰ *Petition*, p. 31.

⁶¹ For additional details on channels of distribution, please see Part II, “Channels of Distribution and Market Segmentation.”

Price

Price data collected by the Commission for certain tissue paper and crepe paper products appear in Part V of this report. These data suggest that certain tissue paper products frequently are sold in the United States at substantially lower prices (based on area) than are certain crepe paper products.

Specific price comparisons for comparable domestic and imported products are presented in Part V. In the aggregate, the average unit values for U.S. shipments of domestically produced certain tissue paper products were \$0.06 per square meter in 2001, \$0.06 in 2002, and \$0.06 in 2003. By comparison, the average unit values for U.S. imports of certain tissue paper products from China were \$0.03 per square meter in 2001, \$0.03 in 2002, and \$0.03 in 2003. The average unit values for U.S. shipments of imports of certain tissue paper products from China were \$0.07 per square meter in 2001, \$0.06 in 2002, and \$0.05 in 2003.⁶² Because certain U.S. retailers are themselves direct importers of the subject merchandise from China, both calculations of average unit values are believed to be relevant.

Certain Crepe Paper Products

Physical Characteristics and Uses

Certain crepe paper products are manufactured from flat tissue paper using a wet creping process that imparts a regularly wrinkled surface to the paper. Certain crepe paper products are distinguishable from the dry creped tissue paper used for sanitary and other household purposes⁶³ and the creped kraft papers used in industrial applications such as air, fuel, and oil filters.⁶⁴ Like tissue paper, certain crepe paper products may be colored, decorated, or customized in a variety of ways. According to testimony presented at the staff conference, the consistency of color matching and crimping of crepe paper produced in the United States reportedly is superior to that produced in China.⁶⁵

Certain crepe paper, unlike certain tissue paper, generally is slit into narrow rolls,⁶⁶ although a small amount of crepe folds are sold for arts and crafts end uses.⁶⁷ While tissue paper (defined broadly) is an upstream product in the manufacture of certain crepe paper products, certain crepe paper products have a finely wrinkled (creped) surface, usually are cut into streamers and treated with fire-retardant chemicals, and most often are used for decorative purposes.⁶⁸

Manufacturing Facilities and Production Employees

The domestic industry producing certain crepe paper products is believed to include four firms, ***, Seaman, also produces certain tissue paper, albeit using a distinct process and with different

⁶² For additional details on prices, please see Part V, “Price Data.” For additional details on average unit values, please see Part III and Part IV.

⁶³ This includes tissue papers used for toilet or facial tissue, towels, napkins, and other similar uses.

⁶⁴ “3.11.10 Filter Papers,” found at http://www.paperloop.com/toolkit/paperhelp/3_11_10_key.shtml and retrieved on Mar. 8, 2004.

⁶⁵ *Conference Transcript*, testimony of Alfred Scott, president, Glitterwrap, p. 145. *But see* questionnaire response of *** indicating that some of the colors of crepe paper from China are more vivid.

⁶⁶ *Petition*, p. 6.

⁶⁷ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁶⁸ *Petition*, p. 32.

equipment.⁶⁹ As noted above, jumbo rolls of tissue paper are the principal upstream product for the converting operations that produce certain crepe paper products. However, the tissue paper used for the manufacture of certain crepe paper products differs from that used for certain tissue paper products in that sizing is added to the pulp as the paper is manufactured. The sizing prevents the sheet of paper from disintegrating during the creping operations.

In contrast to the dry creping process that is used in the manufacture of sanitary tissue and toweling, certain crepe paper products undergo a wet creping process.⁷⁰ Typically, the first step is to mix a solution of ammonia-based flameproof salts and, if necessary, dyes and other additives (e.g., softeners, mineral-based pearlescent coatings). For dyed crepe papers, proper color matching from batch to batch is critical.⁷¹ Once mixed, the solution is transferred to a creping machine, and a roll of tissue paper is mounted in its roll stand. As the sheet is unwound, it is bathed in the solution, which is circulated either in a trough or in the nip of a small roll which presses the sheet onto a large, rotating drum.⁷² The moistened sheet adheres to the drum, which is equipped with a doctor blade extending across the surface of the back side of the roll. Crepes are formed as the sheet is crowded against the doctor blade, and a felt picks the sheet off the doctor blade. The relative speeds of the felt and the rotating drum are set such that the felt will not pull the creping out of the sheet. The felt conveys the creped paper to a drier cylinder which dries the sheet. Once dry, the crepe paper is rewound on a roll. The roll of creped paper is then moved to a slitter, which cuts the sheet into streamer widths (typically 1-3/4 inches), winds them to the correct length and diameter, and applies adhesive to the end to keep the streamers from unraveling. The streamers are packed in preformed bags, wholesale bags (if needed), and finally into corrugated cartons.

Interchangeability and Customer and Producer Perceptions

As discussed in greater detail in Part II of the staff report, certain crepe paper potentially faces several substitute products. Certain tissue paper, however, is not considered by either U.S. producers or U.S. importers to be one of those substitute products, nor are various forms of dry creped tissue paper.

Notwithstanding the reportedly higher quality of domestically produced crepe paper by virtue of its crimping and dyeing process, domestically produced crepe paper and crepe paper from China appear to be largely interchangeable. Both U.S. producers and U.S. importers reportedly perceive certain crepe paper produced in the United States and in China to be “always” or “frequently” interchangeable.⁷³

Channels of Distribution

According to the petition, certain crepe paper products are sold through both distributors and retailers.⁷⁴ Questionnaire responses indicate that, with respect to domestically produced certain crepe paper products, *** percent of U.S. shipments in 2003 were made through distributors, *** percent were made directly to retailers, and *** percent were made directly to final consumers. With respect to certain

⁶⁹ *Conference Transcript*, testimony of George Jones, president, Seaman, p. 22.

⁷⁰ “3.10 Tissue Grades,” found at http://www.paperloop.com/toolkit/paperhelp/3_10.shtml and retrieved on Mar. 8, 2004.

⁷¹ ***, interview by USITC Staff, ***, Feb. 27, 2004. Conference testimony suggested that differences in the manufacturing process in China (printing and embossing white crepe paper, as opposed to the U.S. method of dyeing the pulp), contributed to perceived higher quality of U.S.-produced crepe. *Conference Transcript*, testimony of Alfred Scott, president, Glitterwrap, pp. 145-146.

⁷² *Conference Transcript*, testimony of George Jones, president, Seaman, p. 22.

⁷³ For additional details on interchangeability and customer and producer perceptions, please see Part II, “Supply and Demand Considerations” and “Substitutability Issues.”

⁷⁴ *Petition*, p. 31.

crepe paper products from China, questionnaire responses indicate that *** percent of U.S. shipments in 2003 were made through distributors, *** percent were made directly to retailers, and *** percent were made directly to final consumers.⁷⁵

Price

Price data collected by the Commission for certain tissue paper and crepe paper products appear in Part V of this report. These data suggest that certain crepe paper products frequently are sold in the United States at substantially higher prices (based on area) than are certain tissue paper products.

Specific price comparisons for comparable domestic and imported products are presented in Part V. In the aggregate, the average unit values for U.S. shipments of domestically produced certain crepe paper products were *** per square meter in 2001, *** in 2002, and *** in 2003. By comparison, the average unit values for U.S. imports of certain crepe paper products from China were *** per square meter in 2001, *** in 2002, and *** in 2003. The average unit values for U.S. shipments of imports of certain crepe paper products from China were *** per square meter in 2001, *** in 2002, and *** in 2003.⁷⁶ Because certain U.S. retailers are themselves direct importers of the subject merchandise from China, both calculations of average unit values are believed to be relevant.

DOMESTIC LIKE PRODUCT ISSUES

The Commission's decision regarding the appropriate domestic products that are "like" the subject imported products is based on a number of factors including (1) physical characteristics and uses; (2) common manufacturing facilities and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and, where appropriate, (6) price. In this investigation, petitioners have identified two separate domestic like products, certain tissue paper products and certain crepe paper products.⁷⁷ Petitioners oppose further subdivision or expansion of the domestic like products.⁷⁸ Respondents either have expressed no opposition to, or have expressly agreed with, treating certain tissue paper and certain crepe paper as separate domestic like products.⁷⁹ With respect to certain tissue paper, however, respondents generally contend that the Commission should find two distinct like products, "consumer" tissue paper and "bulk" tissue paper.⁸⁰ In addition, at the Commission's staff conference, certain U.S. importers contemplated a broader domestic like product,⁸¹ but have provided no additional facts or argument in subsequent submissions.⁸²

⁷⁵ For additional details on channels of distribution, please see Part II, "Channels of Distribution and Market Segmentation."

⁷⁶ For additional details on prices, please see Part V, "Price Data." For additional details on average unit values, please see Part III and Part IV.

⁷⁷ *Petition*, p. 30.

⁷⁸ *Petitioners' Postconference Brief*, pp. 4-14.

⁷⁹ *See Conference Transcript*, testimony of William Perry, counsel on behalf of City Paper et. al., p. 193.

⁸⁰ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 1; *Respondents City Paper et. al.'s Postconference Brief*, p. 3; *Respondent Chinese Producers/Exporters' Postconference Brief*, p. 1; and *Respondent Target's Postconference Brief*, p. 4.

⁸¹ *See Conference Transcript*, testimony of William Perry, counsel on behalf of City Paper et. al., pp. 153 (wax paper); 189 (sanitary and household tissue, wax paper / tissue, jumbo rolls); and 194 (wax paper, jumbo rolls).

⁸² *See Respondents City Paper et. al.'s Postconference Brief*, pp. 2-11 (discussing two separate domestic like products, bulk tissue paper and consumer tissue paper) and pp. 11-14 (discussing the inapplicability of the

(continued...)

Physical Characteristics and Uses

Certain tissue paper products are cut-to-length sheets of tissue paper in various sizes, colors, and printed designs that are packaged in various forms.⁸³ Respondents contend that consumer tissue paper differs from bulk tissue paper based on physical differences such as sheet size, quantities per package, design, and packaging.⁸⁴ According to respondents, sheets of tissue sold in reams generally are larger than sheets of tissue sold as consumer tissue; any overlap in sheet size is minimal.⁸⁵ As club packs are considered by respondents to be seasonal consumer items,⁸⁶ sheet counts for packages of consumer tissue paper range from 5 to 400 sheets per package, in contrast to bulk tissue, which is sold in reams (480 sheets). Respondents contend that bulk tissue is plain, solid color, or has a basic pattern.⁸⁷ On the other hand, consumer tissue is customized, is characterized by colors, artwork, and design, and may be included in a package with sheets of specialty tissue or nonsubject products.⁸⁸ Bulk tissue is packaged in “functional, minimally-adorned,”⁸⁹ utilitarian packaging while consumer tissue paper is packaged in colorful, customized packaging.^{90 91}

Petitioners assert that such differences in dimensions, colors, and designs as noted above demonstrate a continuum within a single domestic like product, and argue that the sale of tissue paper in bulk does not constitute a separate domestic like product from the sale of the same tissue paper in consumer packages.⁹² Petitioners assert that the characteristics of tissue paper sold in bulk to retailers and to consumers are similar and that the vast majority of the tissue sold to consumers in the U.S. market is white or a single color.⁹³ They also suggest that there is substantial overlap in sheet sizes; that differences in package size reflect customers’ shelf space; and that tissue paper sold in bulk to retailers can be either folded or flat.⁹⁴

Respondents emphasize the difference in the end uses of consumer tissue, which is used for “decorative wrapping,” and bulk tissue, which is sold to retail stores⁹⁵ to protect merchandise and laundry

⁸² (...continued)
continuum principle with respect to tissue paper).

⁸³ *Petition*, p. 30.

⁸⁴ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, pp. 4, 5.

⁸⁵ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 5.

⁸⁶ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 3.

⁸⁷ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 5.

⁸⁸ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 5.

⁸⁹ *Respondents City Paper et. al.’s Postconference Brief*, p. 4.

⁹⁰ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 5.

⁹¹ Crystal Creative reported that *** of its domestically produced bulk tissue paper shipped in 2003 was customized, compared to *** of its domestically produced consumer tissue paper. Seaman and Flower City reported ***. For bulk tissue paper products, ***. E-mail from *** on behalf of Crystal Creative, March 22, 2004, and e-mail from *** on behalf of petitioning producers, March 24, 2004.

⁹² *Petitioners’ Postconference Brief*, p. 5.

⁹³ *Petitioners’ Postconference Brief*, p. 6.

⁹⁴ *Petitioners’ Postconference Brief*, pp. 6, 7.

⁹⁵ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 3.

and to fill voids in goods and packages.⁹⁶ Petitioners note that in either case, the tissue paper is used as internal wrapping in a box or bag.⁹⁷

Manufacturing Facilities and Production Employees

The domestic industry producing certain tissue paper products is believed to include some 16 firms, of which Seaman and Flower City currently produce both consumer and bulk tissue paper.⁹⁸ In addition, Crystal Creative (acquired in 2002 by U.S. importer Cleo) produced both consumer and bulk tissue paper at its Maysville, KY, facility until 2003.⁹⁹ Respondents acknowledge that certain manufacturing steps (e.g., printing) may be accomplished on the same equipment for both bulk and consumer tissue paper,¹⁰⁰ but they note that the manufacture of consumer tissue paper begins with a design phase that can require an 18-month lead time.¹⁰¹ They contend that bulk and consumer tissue often are manufactured on different production lines or on different “types” of equipment, the principal difference being size.¹⁰² Finally, they note that bulk and consumer tissue often are manufactured in different factories¹⁰³ or by different firms.¹⁰⁴ Petitioners contend that all tissue paper shares the same basic manufacturing process¹⁰⁵ and that bulk grades and consumer grades may be produced in the same facility with common employees and similar processes.¹⁰⁶

Interchangeability and Customer and Producer Perceptions

Respondents contend that bulk and consumer tissue paper are not interchangeable due to the differences in quantities per package between consumer and bulk tissue. The individual shoppers that purchase consumer tissue do not wish to purchase tissue paper in reams;¹⁰⁷ further, they contend, club packs in fact are consumed by consumers and not by businesses.¹⁰⁸ Petitioners dispute this contention,

⁹⁶ *Respondents City Paper et. al.’s Postconference Brief*, p. 5.

⁹⁷ *Petitioners’ Postconference Brief*, p. 8.

⁹⁸ *Conference Transcript*, testimony of George Jones, president, Seaman, p. 19; testimony of William Shafer, president, Flower City, p. 26.

⁹⁹ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, pp. 125-126.

¹⁰⁰ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 7.

¹⁰¹ *Respondent Target’s Postconference Brief*, p. 2.

¹⁰² Jumbo rolls used in the production of bulk tissue are typically wider. *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 7.

¹⁰³ *Respondents City Paper et. al.’s Postconference Brief*, p. 10.

¹⁰⁴ *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 7.

¹⁰⁵ *Petition*, p. 31.

¹⁰⁶ *Petitioners’ Postconference Brief*, p. 8.

¹⁰⁷ *Respondents City Paper et. al.’s Postconference Brief*, p. 6.

¹⁰⁸ *Respondents City Paper et. al.’s Postconference Brief*, p. 13, and *Respondents Cleo’s and Crystal Creative’s Postconference Brief*, p. 4.

arguing that small businesses may also purchase club packs.¹⁰⁹ Respondents also assert that consumer tissue is a more flashy commodity¹¹⁰ that retailers do not use as dunnage for their products.¹¹¹

Channels of Distribution

According to the petition, certain tissue paper products are sold through both distributors and retailers.¹¹² Questionnaire responses indicate that, with respect to consumer tissue paper, 44 percent of domestic shipments in 2003 were made through distributors and 56 percent were made directly to retailers. With respect to bulk tissue paper, 74 percent of 2003 domestic shipments were made through distributors, 25 percent were made directly to retailers, and 1 percent were made directly to the consumer. Respondents contend, however, that bulk and consumer tissue generally are sold by different firms¹¹³ and generally are purchased by different firms. High-end retailers (e.g., Saks, Nordstroms) and laundries buy bulk tissue, and party stores, gift stores, and low-end retailers (e.g., Target, Wal-Mart) purchase consumer tissue.¹¹⁴ Respondents note that when firms purchase both types of tissue paper the purchases are made by different parts of the organization.¹¹⁵

Price

Respondents contend that prices generally are higher for consumer tissue based on the difference in quantities and packaging¹¹⁶ and the fact that bulk tissue is sold by weight.¹¹⁷ However, petitioners maintain that prices are within a reasonable range of a single like product.¹¹⁸ Price data collected by the Commission for tissue paper folds (consumer tissue paper) and tissue paper reams (bulk tissue paper) appear in Part V of this report. These data suggest that tissue paper sold in different volumes can have a range of prices, although the most pronounced price differential appears to be between 5-count packages and all other counts for which the Commission collected data, whether 40-count consumer tissue packages or 480- to 500-count reams of bulk tissue.

In the aggregate, the average unit values for U.S. shipments of consumer tissue paper were \$0.07 per square meter in 2001, \$0.07 in 2002, and \$0.07 in 2003. By comparison, the average unit values for bulk tissue paper were \$0.05 per square meter in 2001, \$0.05 in 2002, and \$0.05 in 2003.

¹⁰⁹ *Petitioners' Postconference Brief*, p. 7.

¹¹⁰ *Respondents City Paper et. al.'s Postconference Brief*, p. 8.

¹¹¹ *Respondents City Paper et. al.'s Postconference Brief*, p. 7.

¹¹² *Petition*, p. 31.

¹¹³ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 6.

¹¹⁴ *Respondents City Paper et. al.'s Postconference Brief*, p. 7.

¹¹⁵ *Respondent Target's Postconference Brief*, p. 2.

¹¹⁶ *Respondents Cleo's and Crystal Creative's Postconference Brief*, p. 7.

¹¹⁷ *Respondents City Paper et. al.'s Postconference Brief*, p. 30.

¹¹⁸ *Petitioners' Postconference Brief*, p. 10.

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET¹

CHANNELS OF DISTRIBUTION AND MARKET SEGMENTATION

During 2003, data reported by U.S. producers of certain tissue paper products indicate that the majority (nearly 64 percent) of their domestic shipments went to distributors while virtually all of their remaining shipments went to retailers. Data reported by importers of certain tissue paper products indicate that the majority (nearly 86 percent) of their domestic shipments went to retailers while most of their remaining shipments went to distributors.

During 2003, data reported by U.S. producers of certain crepe paper products indicate that the majority (** percent) of their domestic shipments went to retailers, nearly ** percent went to distributors, and ** percent went direct to consumers. Data reported by importers of certain crepe paper products indicate that the vast majority (***) of their domestic shipments went to retailers, ** percent went to distributors, and ** percent went direct to consumers.²

Certain crepe paper products are generally sold as streamers and are used for decorative purposes. Certain tissue paper products are generally sold in two forms (folds and reams) and are used for both the protective and decorative wrapping or packaging of items.³

SUPPLY AND DEMAND CONSIDERATIONS⁴

U.S. Supply

Based on available information, U.S. producers of certain tissue paper products and certain crepe paper products have the ability to respond to changes in prices with moderate-to-large changes in the quantity of shipments of U.S.-produced certain tissue paper products and certain crepe paper products to the U.S. market. The main factors contributing to this degree of responsiveness are excess capacity and substantial inventories. These factors are detailed next.

¹ In the section of the Commission's questionnaire titled "pricing and related information," firms were asked to identify and discuss whether their responses differ with respect to certain tissue paper products and certain crepe paper products. Most responding firms did not differentiate their responses as requested, nor did they differentiate between bulk tissue paper and consumer tissue paper. Responses from those few firms that did provide such detail are footnoted as necessary in this section of the report.

² At the staff conference, petitioners discussed the increasing market power of some mass merchandisers and their ability to bypass the distributor channel and import directly from China. According to petitioners, these large retailers exert pressure on distributors to obtain lower prices from U.S. producers by threatening to import directly from China if such prices cannot be secured from domestic sources. *Conference Transcript*, testimony of Patrick Magrath, director, Georgetown Economic Services, pp. 92-93. Petitioners also stated that "club" stores such as Costco blur the line between retailers and distributors by functioning as both a consumer outlet and a distributor to small businesses. *Conference Transcript*, testimony of Ted Tepe, vice president of consumer products, Seaman, p. 92.

³ Respondents assert that these two product forms of tissue paper have different distribution chains because bulk tissue paper (typically sold in reams) is purchased by retailers as a supply item and consumer tissue paper (typically sold in folds) is purchased by retailers for resale to consumers. *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 122. Petitioners argue that there is no demarcation between retailers and consumers in channels of distribution, as tissue products are sold to retailers or distributors and are not sold directly to consumers. Further, petitioners argue that it does not matter if the tissue paper is given away at the point of sale or resold to consumers because in both cases the end user is the consumer. *Petitioners' Postconference Brief*, p. 6.

⁴ Reported data on Chinese production capacity, production, capacity utilization, inventories, and exports of certain tissue paper products and certain crepe paper products are shown in detail in Part VII of this report.

Industry Capacity

Data reported by U.S. producers indicate that there is significant excess capacity with which to expand production of certain tissue paper products and certain crepe paper products in the event of price changes. Domestic capacity utilization for certain tissue paper products declined irregularly from 55.9 percent in 2001 to 45.4 percent in 2003.⁵ Domestic capacity utilization for certain crepe paper products declined from *** percent to *** percent in that time frame.

Inventory Levels

U.S. producers' inventories of certain tissue paper products and certain crepe paper products as a ratio to total shipments increased during the period for which data were collected. For certain tissue paper products, inventories as a ratio to total shipments increased from 14.4 percent in 2001 to 22.1 percent in 2003. For certain crepe paper products, inventories as a ratio to total shipments increased from *** percent to *** percent in that time frame. These data indicate that U.S. producers have the ability to use inventories of certain tissue paper products and certain crepe paper products as a source of increased shipments to the U.S. market.

Export Markets

Exports represented a small share of the quantity of total shipments of certain tissue paper products and certain crepe paper products, accounting for between 1.9 and 2.7 percent for certain tissue paper products and between *** and *** percent for certain crepe paper products. These numbers suggest that U.S. producers may have a limited ability to divert shipments to or from alternate markets in response to changes in the prices of certain tissue paper products and certain crepe paper products.

U.S. Demand

Based on available information, both certain tissue paper products and certain crepe paper products are likely to experience at least moderate changes in overall demand in response to changes in price. The main factor contributing to this degree of price sensitivity is the existence of various substitute products for both certain tissue paper products and certain crepe paper products.

Demand Characteristics

Questionnaire responses and staff conference testimony reveal that U.S. producers and importers do not agree on the trends in U.S. demand for certain tissue paper products and certain crepe paper products during the period examined. For certain tissue paper products, U.S. producers reported that demand has remained essentially unchanged. According to petitioners, the growth in tissue paper demand associated with the increased popularity of gift bags occurred prior to the period for which data were collected. While importers' questionnaire responses were mixed, respondents stated that the demand for consumer tissue paper has increased as the demand for gift bags has continued to increase, while the

⁵ Respondents characterize capacity as the ability to meet seasonal demand. According to conference testimony, Cleo's purchasing arrangement with Seaman became "strained" for a number of reasons, including late delivery and non-responsiveness to product requirements. *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, pp. 123-124.

demand for bulk tissue paper has somewhat declined as retail sales have declined and retailers look for ways to cut costs.⁶

For certain crepe paper products, U.S. producers reported that demand has remained essentially unchanged during the period examined. While importers' questionnaire responses were mixed, staff conference testimony revealed that respondents believe the demand for crepe paper has declined due to the introduction of new and innovative substitute products such as banners, paper or foil garlands, and plastic streamers.

Available information indicates that apparent U.S. consumption of certain tissue paper products increased from 2.2 billion square meters in 2001 to 2.5 billion square meters in 2003, while apparent U.S. consumption of certain crepe paper products decreased irregularly from *** square meters in 2001 to *** square meters in 2003. The increase in apparent U.S. consumption of certain tissue paper products between 2001 and 2003 resulted entirely from increased shipments of consumer tissue paper, while shipments of bulk tissue paper declined modestly.

Substitute Products

Questionnaire responses from U.S. producers and importers reveal that the majority of U.S. producers (eight of eleven) that responded to the relevant questions believe there are no direct substitute products for certain tissue paper products and certain crepe paper products,⁷ while the majority of importers (14 of 24) believe that substitute products are available for certain tissue paper products. For tissue paper, importers reported that products such as mylar sheets, mylar or paper shreds, gift wrap, and unprinted newsprint are possible substitutes. For crepe paper, several firms reported that products such as banners, paper or foil garlands, and plastic streamers are possible substitutes.⁸

At the staff conference, petitioners stated that the substitute products mentioned above are generally more expensive and that substitution away from certain tissue paper products or certain crepe paper products is infrequent and of little concern to U.S. producers.⁹ Respondents asserted that these substitute products negatively impact U.S. market share, particularly for certain crepe paper products.¹⁰

⁶ While parties agree that there is increased demand for certain tissue paper products during the year-end holiday season, respondents assert that consumer tissue paper products experience more seasonality in demand as compared to bulk tissue paper products. According to Cleo, approximately 75 to 80 percent of its sales of consumer tissue paper occur in the last five months of the year. *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 123.

⁷ Among responding U.S. producers, *** noted separate responses for certain tissue paper products and certain crepe paper products and *** noted separate responses for bulk tissue paper and consumer tissue paper. According to *** there are no substitute products for either certain tissue paper products or certain crepe paper products. According to *** there are no substitute products for bulk tissue paper; however, mylar sheets, tissue and mylar shreds, and gift wrap are possible substitutes for consumer tissue paper.

⁸ Among responding importers, *** and *** noted separate responses for bulk tissue paper and consumer tissue paper. According to ***, possible substitutes for bulk tissue paper are unprinted newsprint papers of varying weights and miscellaneous packaging papers. *** reported that there are no substitute products for bulk tissue paper. *** and *** reported that possible substitutes for consumer tissue paper are shredded paper or foil, fabric, mylar sheets, and other gift wrap.

⁹ *Conference Transcript*, testimony of Ted Tepe, vice president of consumer products, Seaman, pp. 79-80.

¹⁰ *Conference Transcript*, testimony of Alfred Scott, chief executive officer, Glitterwrap, p. 146.

Cost Share

Certain tissue paper products and certain crepe paper products are sold as such to purchasers and are not used as an intermediate product in the production of another product. Therefore, the issue of cost share is not relevant.

SUBSTITUTABILITY ISSUES

The degree of substitution between domestic and imported certain tissue paper products and certain crepe paper products depends upon such factors as relative prices, quality, and conditions of sale. Based on available data in the preliminary phase of this investigation, staff believes that there is a high degree of substitution between domestic certain tissue paper products and certain crepe paper products and subject imports. Table II-1 summarizes U.S. producers' and importers' responses regarding the perceived degree of interchangeability between certain tissue paper products and certain crepe paper products produced in the United States and in other countries. Table II-2 summarizes U.S. producers' and importers' responses regarding the perceived importance of differences in factors other than price between certain tissue paper products and certain crepe paper products produced in the United States and in other countries.

Table II-1

Certain tissue paper products and certain crepe paper products: Perceived degree of interchangeability between certain tissue paper products and certain crepe paper products produced in the United States and in other countries in sales of certain tissue paper products and certain crepe paper products in the U.S. market

Country pair	U.S. producers' responses ¹					U.S. importers' responses ²				
	A	F	S	N	O	A	F	S	N	O
U.S. vs. China	9	2	1	0	0	10	12	5	1	2
U.S. vs. nonsubject	8	0	0	0	4	5	4	0	0	21
China vs. nonsubject	8	0	0	0	4	5	4	0	0	21
<p>¹*** reported in its U.S. producers' questionnaire response that U.S.-produced bulk tissue paper is "frequently" interchangeable with Chinese bulk tissue paper, whereas U.S.-produced consumer tissue paper is "sometimes" interchangeable with Chinese consumer tissue paper. In addition, *** reported separately for certain tissue paper products and certain crepe paper products in its U.S. producers' questionnaire. For both tissue paper and crepe paper, *** reported that the U.S. product and the Chinese product are "always" interchangeable.</p> <p>²*** reported in its importers' questionnaire response that U.S.-produced bulk tissue paper is "frequently" interchangeable with Chinese bulk tissue paper, whereas U.S.-produced consumer tissue paper is "sometimes" interchangeable with Chinese consumer tissue paper. In addition, several importers reported separately for certain tissue paper products and certain crepe paper products. For tissue paper, *** reported that the U.S. product and the Chinese product are "always" interchangeable while *** reported that such products are "sometimes" interchangeable. For crepe paper, *** reported that the U.S. product and the Chinese product are "frequently" interchangeable.</p> <p>Note – A = Always, F = Frequently, S = Sometimes, N = Never, O = No familiarity.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>										

Table II-2

Certain tissue paper products and certain crepe paper products: Perceived importance of differences in factors other than price between certain tissue paper products and certain crepe paper products produced in the United States and in other countries in sales of certain tissue paper products and certain crepe paper products in the U.S. market

Country pair	U.S. producers' responses ¹					U.S. importers' responses ²				
	A	F	S	N	O	A	F	S	N	O
U.S. vs. China	1	1	2	8	0	7	5	7	7	2
U.S. vs. nonsubject	0	0	1	7	4	0	2	1	4	21
China vs. nonsubject	0	0	1	7	4	0	2	0	4	22
<p>¹*** reported in its U.S. producers' questionnaire response that differences other than price are "frequently" a significant factor in sales of U.S.-produced bulk tissue paper versus Chinese bulk tissue paper, whereas differences other than price are "always" a significant factor in sales of U.S.-produced consumer tissue paper versus Chinese consumer tissue paper. In addition, *** reported separately for certain tissue paper products and certain crepe paper products in its U.S. producers' questionnaire. For both tissue paper and crepe paper, *** reported that differences other than price are "never" a significant factor in purchase decisions.</p> <p>²*** reported in its importers' questionnaire response that differences other than price are "frequently" a significant factor in sales of U.S.-produced bulk tissue paper versus Chinese bulk tissue paper, whereas differences other than price are "always" a significant factor in sales of U.S.-produced consumer tissue paper versus Chinese consumer tissue paper. In addition, *** reported only for certain tissue paper products and stated that differences other than price are "never" a significant factor in purchase decisions.</p> <p>Note -- A = Always, F = Frequently, S = Sometimes, N = Never, O = No familiarity.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>										

At the staff conference and in questionnaire responses, respondents stated that some of the specialty consumer tissue paper products, such as die-cut and hot-stamped tissue paper, are not readily available from U.S. producers. Respondents also asserted that certain Chinese suppliers of consumer tissue have a greater ability to provide more sophisticated packaging and seasonal on-time delivery. Seaman stated at the staff conference that it has neither lost sales due to an inability to meet customers' specifications nor declined to quote on particular projects because of an inability to meet customer specifications.¹¹ Further, petitioners assert that the vast majority of consumer tissue paper sold in the U.S. market is either white or solid colors and not the specialty types.^{12 13}

¹¹ *Conference Transcript*, testimony of Ted Tepe, vice president of consumer products, Seaman, p. 89.

¹² *Petitioners' Postconference Brief*, p. 6.

¹³ According to the petitioners, ***. *Petitioners' Postconference Brief*, exh. one, p. 12. In contrast, data submitted by Cleo and Crystal reveal that ***. Respondents *Cleo and Crystal's Postconference Brief*, attachment 3.

PART III: U.S. PRODUCERS’ PRODUCTION, SHIPMENTS, AND EMPLOYMENT

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the alleged margins of dumping was presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of 11 firms that accounted for nearly all of U.S. production of certain tissue paper products and crepe paper products during 2003.¹

U.S. PRODUCERS

Certain tissue paper and crepe paper are produced in the United States by integrated producers and by converters.² Although the fundamentals of papermaking remain essentially the same, the process is continually refined,³ and paper mills have evolved into complex, technically sophisticated operations. Innovations may result from research conducted by industry associations, universities, paper firms, and equipment suppliers and typically are directed toward increasing production speed, improving process control, improving product quality, or reducing effluent.⁴ Advances are manifest through constructing new mills or upgrading existing ones.⁵

Likewise, printing and converting operations are increasingly sophisticated. Computers have revolutionized the design, plate-making, and printing processes;⁶ Seaman’s tissue paper (and crepe paper)

¹ Beistle was unable to complete its questionnaire; the company produces certain crepe paper products and ***. DMD Industries, Green Mountain Specialties, Pacon Corp., Printwrap Corp., and Sullivan Paper Co., producers of certain tissue paper products, did not complete the Commission’s questionnaires. The production and U.S. shipments of all of these producers combined are not believed to account for a significant share of the U.S. market.

² *Petition*, p. 10 n.2. The conversion of jumbo rolls into certain tissue paper products is estimated to generate *** percent value added; the conversion of jumbo rolls into crepe paper is estimated to generate *** percent value added. *Petitioners’ Postconference Brief*, app. 1. Of the major current and former producers of certain tissue paper products, Seaman is an integrated producer, Crystal Creative was a converter (but is now an importer), Putney Paper is integrated, Garlock is a converter, Flower City is integrated, and Eagle is a converter. Of the major producers of certain crepe paper products, Seaman is an integrated producer, Cindus is a converter, and American Crepe is integrated.

³ U.S. International Trade Commission, *Industry & Trade Summary, Wood Pulp and Waste Paper*, USITC publication 3490, 2002, p. 11.

⁴ U.S. International Trade Commission, *Industry & Trade Summary, Wood Pulp and Waste Paper*, USITC publication 3490, 2002, p. 11.

⁵ For example, Seaman’s paper mill, which dates to the early 20th century, cannot be considered state-of-the-art, but on-going investments have allowed it to continue to produce specialty tissue paper. The speed of the paper machines has been increased by more than *** percent since the 1980s through upgrades to the head boxes and press sections on the paper machines, and the mill’s water treatment system has been upgraded. ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁶ Modern printing presses utilize features such as laser engraving of printing plates, automatic loading of plates, automatic registration, perfecters, which flip sheets to allow printing on both sides in one pass, and UV coaters, which apply clear, hard, high-gloss finishes. Presses can be monitored remotely by the manufacturer to ensure peak operating condition. Richter, Jochen, “Flexo Printing Keeps Advancing,” *Official Board Markets*, Vol. 79, No. 36, Sep. 6, 2003, p. 1, and USITC staff interviews with industry officials, Lynn, MA, Mar. 14, 2001 and City of Industry, CA, May 15, 2002.

printing operations, for example, include state-of-the-art laser plate making equipment and presses.⁷ Converting operations are fundamentally simple but nonetheless generally are performed with purpose-built, high-speed, automated equipment that is subjected to same process of continual refinement.⁸ The technical expertise required for printing and converting operations is reasonably high, although somewhat lower perhaps than that which is necessary to operate the paper mill.

Of the four known U.S. producers of crepe paper (American Crepe, Cindus, Seaman, and Beistle), three reported information and data on their crepe paper operations to the Commission. Of these companies, Seaman also produces certain tissue paper products. In all, nine U.S. producers reported information and data on their tissue paper operations to the Commission. Table III-1 presents U.S. producers' plant locations, products produced, positions on the petition, and shares of total reported U.S. production in 2003.

Petitioners

American Crepe produces crepe paper under its own label and for other paper product distributors both in the United States and internationally and supplies tissue paper in a wide variety of colors and designs.⁹

Eagle began operations in January 1997 in South Windsor, CT, as a converter of retail ("bulk") wrapping tissue. Since that time Eagle has become a source of stock and custom wrapping tissue, selling primarily to the retail packaging industry through retail packaging distributors and directly to national retail chains.¹⁰

Flower City is a closely held corporation which was founded in 1906 by four local Rochester, NY, businessmen. Originally a producer of regular white wrapping tissue (initially using a single Fourdrinier paper machine), Flower City began production of colored tissue in 1988.¹¹

Garlock was founded in 1987 to add value to Seaman Paper's solid color wrapping tissue by printing designs or logos on the paper, and then shipping out printed master rolls for converting, primarily for in-store packaging use.¹²

Paper Service is a New Hampshire-based family-owned paper company founded in 1883. Paper Service is an integrated producer that currently is running *** tissue paper sheeters and has *** additional sheeters that are idled.¹³

Putney is located in Putney, VT. Putney has been manufacturing napkins, towels, and wrapping tissue entirely from 100 percent recycled paper for more than 45 years.¹⁴

⁷ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁸ ***, interview by USITC Staff, ***, Feb. 27, 2004.

⁹ Retrieved from American Crepe's website <http://www.americancrepe.com>.

¹⁰ Eagle concentrates on #1 ream packs and custom printed tissue and #2 packing tissue. They have expanded production capacity since opening and concentrate only on wrapping tissue paper products, converting 99.5 percent of what they sell. Retrieved from Eagle's website <http://www.eagletissue.com/>.

¹¹ Retrieved from Flower City's website <http://www.flowercitytissue.com/>.

¹² Retrieved from Garlock's website <http://www.satinwrap.com/about.php>.

¹³ E-Mail from ***.

¹⁴ Retrieved from Putney's website <http://www.fiberclaycouncil.org/putney/>.

Table III-1

Certain tissue paper products and crepe paper products: U.S. producers, their positions on the petition, plant locations, ownership, products produced, and share of total reported U.S. production, 2003

Firm	Position on petition	Plant location(s)	Related companies	Products produced	Share of total reported U.S. production (in percent)	
					Tissue	Crepe
American Crepe	Support/ Petitioner	Montoursville, PA	None	Crepe	0.00	***
American Greetings ¹	Production of tissue paper products ceased in 2001; ***.					
Beistle ²	***	Shippensburg, PA	None	Crepe	N/A	N/A
Burrows	Production of tissue paper products ceased in 2001.					
Chemco	Support	Bellows Falls, VT	None	Tissue	***	0.00
Cindus ³	Support	Cincinnati, OH	None	Crepe	0.00	***
Creative Expressions	Have not produced since 2000.					
Crystal Creative ⁴	***	Memphis, TN	Crystal is wholly owned by Cleo, Inc., which is wholly owned by CSS Industries, Inc.	Tissue	***	0.00
DMD ⁵	***	Springdale, AR	None	Tissue	N/A	N/A
Eagle	Support/ Petitioner	South Windsor, CT	None	Tissue	***	0.00
Flower City ⁶	Support/ Petitioner	Rochester, NY	None	Tissue	***	0.00
Garlock	Support/ Petitioner	Gardner, MA	Seaman owns *** percent	Tissue	***	0.00
Green Mountain	***	Bellows Falls, VT	None	Tissue	N/A	N/A
Hallmark ⁷	Support	Kansas, City, MO	(See company description later in this section)	Tissue	***	0.00
Pacon	***	Appleton, WI	The Van Hoof Companies	Tissue	N/A	N/A
Paper Service	Support/ Petitioner	Hinsdale, NH	None	Tissue	***	0.00
Printwrap	***	Cedar Grove, NJ	None	Tissue	N/A	N/A
Putney Paper	Support/ Petitioner	Putney, VT	None	Tissue	***	0.00

Table continued on next page.

Firm	Position on petition	Plant location(s)	Related companies	Products produced	Share of total reported U.S. production (in percent)	
					Tissue	Crepe
Seaman ⁸	Support/ Petitioner	Otter River, MA Gardner, MA	MBW Inc.; Specialized Paper Converting, Inc.; & Garlock Printing & Converting Inc.	Crepe and Tissue	***	***
Sullivan	***	West Springfield, MA	None	Tissue	N/A	N/A
¹ ***. ² ***. ³ ***. ⁴ ***. ⁵ ***. ⁶ ***. ⁷ ***. ⁸ ***. Note.--Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.						

Seaman is a privately owned paper manufacturer operating two paper machines for tissue paper products. The mill was originally purchased by Seaman Paper Company of Chicago in November 1945. MBW, Inc. was established in 1993 to sheet and fold tissue. MBW operates one ream sheeter, one ream sheeter-folder, and five consumer sheeter-folders. In 1994 Seaman purchased the decorative crepe tissue division of Avery Dennison and formed Dennecrepe Corporation. Currently Dennecrepe operates four creping machines and seven crepe packaging lines in an 80,000 square foot facility in Gardner, MA. In 1998 the Specialized Paper Converting, Inc. affiliate was formed to provide drum sheeting capabilities and other specialty converting services. In 2003 Seaman purchased the ream tissue division of Crystal Creative Products from Cleo. The purchase included the sheeter and sheeter-folder converting equipment Crystal used to support its bulk tissue paper business.¹⁵

Non-Petitioning Firms

American Greetings produced certain tissue paper products in the United States through 2001. The company, now ***, operates wholly owned subsidiaries throughout the world, including Canada, the United Kingdom, Mexico, Australia, New Zealand, and S.A. Greetings in South Africa.¹⁶

Beistle is reportedly the oldest and largest manufacturer of decorations and party goods, with more than 3,000 items in their product line. Beistle *** manufactures *** crepe rolls in two lengths,

¹⁵ Retrieved from Seaman's website <http://www.satinwrap.com/about.php>. ***.

¹⁶ American Greetings acquired Gibson Greetings for \$170 million, combining the world's two largest publicly held greeting card companies. The acquisition generated ongoing revenue of about \$225 million. Retrieved from American Greetings website <http://www.americangreetings.com/>.

85 feet and 500 feet.¹⁷ Beistle does not produce certain tissue paper products ***.¹⁸ Beistle also performs custom manufacturing for “in-store P-O-P displays,” as well as private label manufacturing.¹⁹

Burrows began in 1919 with the purchase of the Mill Street paper mill in Little Falls, NY. For more than 30 years, Burrows specialized in the production of gift tissue, pattern tissue, and sanitary tissue products. Burrows is a fully integrated paper company offering a wide variety of products from pulp to industrial paper to F-flute packaging.²⁰ ***.²¹

Chemco has been a converter of tissue paper. The company recently closed down its operations.

Cindus, located in Cincinnati, OH, is a paper converting company that has been in operation since 1923. The company’s primary product line is crepe paper.²²

Although Crystal Creative is no longer a producer of certain tissue paper products, the company was reportedly “the largest supplier of tissue paper in the U.S. market in the 1980s and the 1990s.”²³ In October 2002, Cleo,²⁴ a subsidiary of CSS Industries and importer of the subject merchandise, acquired all of the capital stock of Crystal Creative.²⁵ Shortly thereafter, CSS announced that it was “in the process of developing a restructuring plan, related to the Crystal acquisition, under which the Company will restructure its business to integrate the acquired entity with its current businesses. In connection with this plan, the Company may dispose of certain product line assets of Crystal.”²⁶ In July 2003, CSS Industries finalized its restructuring plan for Crystal and reported that “the Company sold assets related to a non-core portion of the Crystal business for approximately \$3,525,000 in July 2003, and will close Crystal’s primary manufacturing facility in Maysville, Kentucky and a separate administration building in Middletown, Ohio.”²⁷ Initial reports indicated that the closure was caused by the “current cost structure and market realities in the decorative tissue and bag business.”²⁸ Conference testimony identified input

¹⁷ Beistle produced ***.

¹⁸ ***.

¹⁹ Retrieved from Beistle’s website <http://www.beistle.com/>. E-Mail from ***.

²⁰ In 1952, Burrows purchased the Mohawk Valley mill in Little Falls, a paper mill in Lyonsdale, NY in 1966, and a mill in Pickens, MS in 1967. In addition to these acquisitions, Burrows expanded the company’s product line to include one-time carbonizing paper and a variety of specialty tissue papers. According to the company, the purchase of Midwest Packaging Materials Company in 1986 marked Burrows’ entrance into the flexible packaging market. The construction of a converting plant in Kerkrade, The Netherlands in 1991, marked Burrows’ entrance into the international market. In 1993 a \$28 million pulp mill was constructed and Burrows’ machine works, a profit center under which trained staffs of employees perform maintenance and repair services on machinery at Burrows’ ten plants. Burrows later acquired Corroc International, which manufactures the microfluted, corrugated clamshell cartons for the quick service restaurant industry as well as a variety of other containers. Retrieved from Burrow’s website <http://www.burrowspaper.com/public>.

²¹ E-Mail from ***.

²² Retrieved from Cindus’ website <http://www.cindus.com/>.

²³ *Conference Transcript*, testimony of Ted Tepe, vice president consumer products, Seaman, p. 30.

²⁴ Cleo provides Christmas gift packaging products, including gift wrap, gift bags and tissue. Retrieved from Cleo’s website <http://www.cssindustries.com/>.

²⁵ *Form 10-Q*, CSS Industries, Inc., for the quarter ended June 30, 2003, p. 8.

²⁶ *Form 10-Q*, CSS Industries, Inc., for the quarter ended December 31, 2002, p. 8.

²⁷ *Form 10-Q*, CSS Industries, Inc., for the quarter ended June 30, 2003, p. 8.

²⁸ “Cleo to close second Crystal facility” found at Memphis Business Journal (July 23, 2003), <http://www.bizjournals.com/memphis/stories/2003/07/21/daily19.html>, and retrieved March 23, 2004. Specifically, the article closes by stating “Cleo President Andy Kelly says the company has to close the Creative Crystal Products facilities because of the ‘current cost structure and market realities in the decorative tissue and bag business.’”

supply conditions as a driving factor for the closure of Crystal Creative's tissue paper production operations.²⁹

DMD is a converter of tissue paper in Bellows Falls, VT, and is owned by Creativity, Inc. ***.

Green Mountain is a family owned business that has produced custom printed and in-stock tissue paper since 1985.³⁰

Hallmark was founded in 1910 in Kansas City. This company reportedly has developed into the largest greeting card firm in the world as well as a group of companies as diverse as television programming, crayons and artists' supplies, printing, retail merchandising, and residential and commercial real estate.³¹

Pacon is located the Fox River Valley of Wisconsin. Pacon has been in business for more than 50 years. It was originally incorporated as Paper Converters, Inc., in 1951, initially converting for area mills. In 1957, Paper Converters became Pacon Corp. Pacon is a part of The Van Hoof Companies, which includes Warehouse Specialists, Inc., Superior Specialties, Inc. and Pacon Corp.³²

Printwrap is a converter of tissue paper products. The company produces approximately *** pounds of tissue paper products that are within the scope of this investigation.³³

Sullivan is a converter of quality specialty papers with an emphasis on design and color.³⁴

U.S. PRODUCTION CAPACITY, PRODUCTION, CAPACITY UTILIZATION, AND SHIPMENTS OF CERTAIN TISSUE PAPER PRODUCTS

Table III-2 presents U.S. production capacity, production, capacity utilization, and shipments data for certain tissue paper products during 2001-2003. Decreasing capacity utilization, U.S. production, and U.S. producers' shipments in 2003 reflect in part the closure of Crystal Creative.³⁵

²⁹ See *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 126:

As a condition of purchasing Crystal, Cleo required (the former owner and supplier of Crystal) to enter into an agreement to supply jumbo tissue rolls to Crystal during the 2003 calendar year. However, in early 2003 the mill announced that it was closing due to the loss of a major customer for commodity paper products, a 30 pound craft paper, not tissue, for a domestic converter. Therefore it was unable to fulfill its 2003 supply obligation to Crystal and shortly thereafter the printer that supplied rotogravure printed tissue to Crystal became unavailable as well.

At that time Crystal was sourcing a limited amount of its folded tissue requirements with a supplier in China. Given the loss of the tissue roll input supply that it had relied on for the Maysville converting plant, Crystal decided to place its entire consumer tissue program with the Chinese supplier and to close the plant.

³⁰ Retrieved from Green Mountain Specialties' website <http://www.greenmtnspecialties.com/>.

³¹ Retrieved from Hallmark's website http://pressroom.hallmark.com/subsidiary_fact_sheet.html.

³² Retrieved from Pacon's website <http://www.pacon.com>.

³³ ***, telephone interview by USITC Staff, March 15, 2004.

³⁴ Retrieved from Sullivan Paper's website <http://www.sullivanpaper.com/>.

³⁵ Crystal Creative's capacity was ***. Its production was ***, and its shipments were ***.

Table III-2

Certain tissue paper products: U.S. production capacity, production, capacity utilization, and shipments, 2001-2003

Item	Calendar year		
	2001	2002	2003
Capacity (1,000 square meters)	3,685,696	3,845,534	3,796,582
Production (1,000 square meters)	2,060,013	2,200,185	1,724,608
Capacity utilization (percent)	55.9	57.2	45.4
Quantity (1,000 square meters)			
Commercial U.S. shipments	2,030,856	2,095,556	1,662,354
Internal consumption	0	0	0
Transfers to related firms	0	0	0
U.S. shipments	2,030,856	2,095,556	1,662,354
Export shipments	39,937	45,510	46,932
Total shipments	2,070,793	2,141,066	1,709,286
Value (\$1,000)			
Commercial U.S. shipments	115,908	118,379	91,920
Internal consumption	0	0	0
Transfers to related firms	0	0	0
U.S. shipments	115,908	118,379	91,920
Export shipments	2,103	2,369	2,386
Total shipments	118,011	120,748	94,306
Unit value (per square meter)			
Commercial U.S. shipments	\$0.0571	\$0.0565	\$0.0553
Internal consumption	(¹)	(¹)	(¹)
Transfers to related firms	(¹)	(¹)	(¹)
U.S. shipments	0.0571	0.0565	0.0553
Export shipments	0.0527	0.0521	0.0508
Total shipments	0.0570	0.0564	0.0552
Unit value (per 1,000 square meters)			
Commercial U.S. shipments	\$57.07	\$56.49	\$55.30
Internal Consumption	(¹)	(¹)	(¹)
Transfers to related firms	(¹)	(¹)	(¹)
U.S. shipments	57.07	56.49	55.30
Export shipments	52.66	52.05	50.84
Total shipments	56.99	56.40	55.17
¹ Not applicable.			
Source: Compiled from data submitted in response to Commission questionnaires.			

U.S. PRODUCERS' INVENTORIES OF CERTAIN TISSUE PAPER PRODUCTS

Table III-3 presents end-of-period inventories for certain tissue paper products during the period for which data were collected. The increase in inventory reflects in part ***.

Table III-3

Certain tissue paper products: U.S. producers' end-of-period inventories, 2001-2003

Item	Calendar year		
	2001	2002	2003
Inventories (1,000 square meters) ¹	297,225	363,500	378,191
Ratio to production (percent)	14.4	16.5	21.9
Ratio to U.S. shipments (percent)	14.6	17.3	22.8
Ratio to total shipments (percent)	14.4	17.0	22.1
¹ Includes some product sold on consignment and held in inventories.			
Note.—Because of rounding, figures may not add to the totals shown.			
Source: Compiled from data submitted in response to Commission questionnaires.			

U.S. PRODUCERS' EMPLOYMENT, COMPENSATION, AND PRODUCTIVITY WITH RESPECT TO CERTAIN TISSUE PAPER PRODUCTS

Table III- 4 presents employment-related data for certain tissue paper products during the period for which data were collected. Employment declines reflect Crystal Creative's plant closure³⁶ as well as decreasing employment among other U.S. producers.³⁷

Table III-4

Certain tissue paper products: U.S. producers' employment-related data, 2001-2003

Item	Calendar year		
	2001	2002	2003
Production and related workers (PRWs)	562	542	402
Hours worked by PRWs (1,000 hours)	1,154	1,126	963
Wages paid to PRWs (1,000 dollars)	14,334	15,267	13,487
Hourly wages	\$12.49	\$13.61	\$14.07
Productivity (square meters produced per hour)	1,786	1,953	1,792
Unit labor costs (per square meter)	\$0.0070	\$0.0070	\$0.0079
Unit labor costs (per 1,000 square meters)	\$7.02	\$6.98	\$7.86
Source: Compiled from data submitted in response to Commission questionnaires.			

³⁶ Crystal Creative's workforce declined ***.

³⁷ According to Seaman's questionnaire response, ***.

U.S. PRODUCTION CAPACITY, PRODUCTION, CAPACITY UTILIZATION, AND SHIPMENTS OF CERTAIN CREPE PAPER PRODUCTS

Table III-5 presents U.S. production capacity, production, capacity utilization, and shipments data for certain crepe paper products during 2001-2003. U.S. production declined by *** square meters from 2001 to 2003 and U.S. shipments declined by *** square meters during this same period.

Table III-5
Certain crepe paper products: U.S. production capacity, production, capacity utilization, and shipments, 2001-2003

* * * * *

U.S. PRODUCERS' INVENTORIES OF CERTAIN CREPE PAPER PRODUCTS

Table III-6 presents end-of-period inventories for certain crepe paper products during the period for which data were collected.

Table III-6
Certain crepe paper products: U.S. producers' end-of-period inventories, 2001-2003

* * * * *

U.S. PRODUCERS' EMPLOYMENT, COMPENSATION, AND PRODUCTIVITY WITH RESPECT TO CERTAIN CREPE PAPER PRODUCTS

Tables III-7 presents employment-related data for certain crepe paper products during the period for which data were collected. *** reported decreasing employment.³⁸

Table III-7
Certain crepe paper products: U.S. producers' employment-related data, 2001-2003

* * * * *

³⁸ For example, according to Seaman's questionnaire response, ***.

PART IV: U.S. IMPORTS, APPARENT U.S. CONSUMPTION, AND MARKET SHARES

The Commission sent questionnaires to 140 firms identified by the petition and a review of Customs data, and received usable data on imports of certain tissue paper products and crepe paper products from 33 firms.¹ Of those 33 firms, 19 were importing subject merchandise from China in 2001, 4 began importing in 2002, and 10 began importing in 2003. Table IV-1 presents information on the importing firms that responded to the Commission's importers' questionnaire.

Table IV-1
Certain tissue paper products and crepe paper products: Selected importer questionnaire respondents, sources of imports, and firms' types of imports, 2003

* * * * *

U.S. IMPORTS OF CERTAIN TISSUE PAPER PRODUCTS

Data in this section regarding the quantity and value of U.S. imports of certain tissue paper products are based on questionnaire responses and are presented in table IV-2. ***.

APPARENT U.S. CONSUMPTION OF CERTAIN TISSUE PAPER PRODUCTS AND MARKET SHARES

Table IV-3 presents U.S. producers' U.S. shipments, U.S. shipments of imports, apparent U.S. consumption, and market shares. As noted in Part I and Part VII of the staff report, certain tissue paper products are produced in a range of weights. With respect to bulk tissue paper products, respondents contend that imports of the subject merchandise tend to be lighter than comparable domestic product (14 grams as opposed to 16.2 grams). As a result, respondents contend that any apparent differences in unit values when measured on an area basis may reflect differences in the weight of the products being compared.²

¹ Coverage estimates are complicated because the HTS categories identified in Commerce's scope contain products not subject to the investigation.

² See, e.g. *Conference Transcript*, testimony of Robert Moreland, president, Standard Quality, pp. 159-160.

Table IV-2
Certain tissue paper products: U.S. imports, by sources, 2001-2003

Source	Calendar year		
	2001	2002	2003
Quantity (1,000 square meters)			
China	***	***	***
Other sources	***	***	***
Total	201,127	344,316	904,119
Value (1,000 dollars)¹			
China	***	***	***
Other sources	***	***	***
Total	6,810	11,248	27,884
Unit value (per 1,000 square meters)¹			
China	\$33.86	\$32.67	\$30.84
Other sources	***	***	***
Average	33.86	32.67	30.84
Share of quantity (percent)			
China	***	***	***
Other sources	***	***	***
Total	100.0	100.0	100.0
Share of value (percent)			
China	***	***	***
Other sources	***	***	***
Total	100.0	100.0	100.0
Ratio of imports to U.S. production (percent)			
China	***	***	***
Other sources	***	***	***
Total	9.8	15.6	52.4
¹ Landed, duty-paid. ² Not applicable or less than 0.05 percent. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.			

Table IV-3

Certain tissue paper products: U.S. producers' U.S. shipments, U.S. shipments of imports, by types and sources, apparent U.S. consumption, and market shares, 2001-2003

Item	Calendar year		
	2001	2002	2003
Quantity (1,000 square meters)			
U.S. producers' U.S. shipments	2,030,856	2,095,556	1,662,354
U.S. shipments of imports from--			
China:			
Commercial shipments	***	***	***
Internal consumption/ consumption transfers	***	***	***
Total China	***	***	***
Nonsubject countries	***	***	***
All countries	194,616	324,908	852,919
Exports	***	***	***
Apparent U.S. consumption	2,225,472	2,420,464	2,515,273
Value (1,000 dollars)			
U.S. producers' U.S. shipments	115,908	118,379	91,920
U.S. shipments of imports from--			
China:			
Commercial shipments	***	***	***
Internal consumption/ consumption transfers	***	***	***
Total China	***	***	***
Nonsubject countries	***	***	***
All countries	12,173	19,629	42,028
Exports	***	***	***
Apparent U.S. consumption	128,081	138,008	133,948
Unit value (per square meter)			
U.S. producers' U.S. shipments	\$0.0571	\$0.0565	\$0.0553
U.S. shipments of imports from--			
China:			
Commercial shipments	0.0589	0.0641	0.0604
Internal consumption/ consumption transfers	0.1608	0.0607	0.0360
Total China	0.0671	0.0634	0.0503
Nonsubject countries	***	***	***
All countries	0.0671	0.0634	0.0503
Exports	0.0745	0.0581	0.0607
Apparent U.S. consumption	0.0576	0.0570	0.0533

Table continued on next page.

Item	Calendar year		
	2001	2002	2003
Unit value (per 1,000 square meters)			
U.S. producers' U.S. shipments	\$57.07	\$56.49	\$55.30
U.S. shipments of imports from--			
China:			
Commercial shipments	54.54	60.33	58.44
Internal consumption/ consumption transfers	160.79	60.75	35.99
Total China	62.55	60.41	49.28
Nonsubject countries	***	***	***
All countries	62.55	60.41	49.28
Exports	74.49	58.10	60.73
Apparent U.S. consumption	57.55	57.02	53.25
Share of quantity (percent)			
U.S. producers' U.S. shipments	91.3	86.6	66.1
U.S. shipments of imports from--			
China:			
Commercial shipments	***	***	***
Internal consumption/ consumption transfers	***	***	***
Total China	***	***	***
Nonsubject countries	***	***	***
All countries	8.7	13.4	33.9
Share of value (percent)			
U.S. producers' U.S. shipments	90.5	85.8	68.6
U.S. shipments of imports from--			
China:			
Commercial shipments	***	***	***
Internal consumption/ consumption transfers	***	***	***
Total China	***	***	***
Nonsubject countries	***	***	***
All countries	9.5	14.2	31.4
¹ Not applicable. ² Less than 0.05 percent.			
Source: Compiled from data submitted in response to Commission questionnaires.			

U.S. IMPORTS OF CERTAIN CREPE PAPER PRODUCTS

Data in this section regarding the quantity and value of U.S. imports of certain crepe paper products are based on questionnaire responses and are presented in table IV-4. *** accounted for *** percent of subject imports of crepe paper products in 2003.

Table IV-4
Certain crepe paper products: U.S. imports, by sources, 2001-2003

* * * * *

APPARENT U.S. CONSUMPTION OF CERTAIN CREPE PAPER PRODUCTS AND MARKET SHARES

Table IV-5 presents U.S. producers' U.S. shipments, U.S. shipments of imports, apparent U.S. consumption, and market shares.

Table IV-5
Certain crepe paper products: U.S. producers' U.S. shipments, U.S. shipments of imports, by types and sources, apparent U.S. consumption, and market shares, 2001-2003

* * * * *

PART V: PRICING AND RELATED INFORMATION¹

FACTORS AFFECTING PRICES

U.S. Inland Transportation

Transportation costs of certain tissue paper products and certain crepe paper products for delivery within the United States vary from firm to firm but tend to account for a relatively small percentage of the total cost of the product. For the seven U.S. producers that responded to this question, these costs accounted for between 0 and 10 percent of the total cost of certain tissue paper products and certain crepe paper products, with an average of 5.6 percent. For the 18 importers that provided usable responses to this question, these costs accounted for between 1 and 12.5 percent of the total cost of the product, with an average of 6.1 percent.²

Most responding U.S. producers (10 of 11) and importers (19 of 23) of certain tissue paper products and certain crepe paper products reported a geographic market area encompassing the entire United States. Those firms without a national market most frequently reported regional market areas in the northeast, mid-Atlantic, and the southeast.³

Producers and importers also were requested to provide information on average lead times and estimates of the percentages of their shipments that were made within specified distance ranges. Firms' responses regarding average lead times varied depending on whether 2003 sales were produced to order or were from inventory, but in general the lead time for produced-to-order sales was one to four months and the lead time for inventory sales was one week or less.⁴ For the 11 U.S. producers that provided

¹ In the section of the Commission's questionnaire titled "pricing and related information," firms were asked to identify and discuss whether their responses differ with respect to certain tissue paper products and certain crepe paper products. Most responding firms did not differentiate their responses as requested, nor did they differentiate between bulk tissue paper and consumer tissue paper. Responses from those few firms that did provide such detail are footnoted as necessary in this section of the report.

² *** reported in its U.S. producers' and importers' questionnaires that its U.S. inland transportation costs range from *** percent of the total delivered cost of certain tissue paper products, while such transportation costs are approximately *** percent of the total delivered cost of certain crepe paper products (answers regarding crepe paper were only reported in its U.S. producers' questionnaire). *** reported in both its U.S. producers' and importers' questionnaires that its U.S. inland transportation costs for both bulk tissue paper and consumer tissue paper are approximately *** percent of the total delivered cost of certain tissue paper products.

³ *** reported in its U.S. producers' and importers' questionnaires that its geographic market area for certain tissue paper products and certain crepe paper products is the entire U.S. market (answers regarding crepe paper were only reported in its U.S. producers' questionnaire). *** reported in both its U.S. producers' and importers' questionnaires that its geographic market area for both bulk tissue paper and consumer tissue paper is the entire U.S. market.

⁴ U.S. producers reported proportionately more 2003 sales as produced to order as compared to importers' responses. In its U.S. producers' questionnaire, *** reported *** percent of its 2003 sales of certain tissue paper products were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***, whereas *** percent of its 2003 sales of certain crepe paper products were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***. *** reported in its U.S. producers' questionnaire that *** percent of its 2003 sales of bulk tissue paper were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***, whereas *** percent of its 2003 sales of consumer tissue paper were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***.

In its importers' questionnaire response, *** reported that *** percent of its 2003 sales of certain tissue paper products were from inventory with a lead time of *** and *** percent of such sales were produced to order
(continued...)

usable responses regarding shipment distances, an average of 10.2 percent of shipments occurred within 100 miles, 59.6 percent occurred within 101 to 1,000 miles, and 30.2 percent occurred at distances over 1,000 miles.⁵ For the 20 importers that provided usable responses regarding shipment distances, an average of 12.5 percent of shipments occurred within 100 miles, 53.8 percent occurred within 101 to 1,000 miles, and 33.7 percent occurred at distances over 1,000 miles.

Exchange Rates

The nominal value of the Chinese yuan relative to the U.S. dollar has remained virtually unchanged since the first quarter of 1997 at 8.28 yuan per dollar. Producer price data for China are not available; therefore, real exchange rates cannot be calculated.

PRICING PRACTICES

Pricing Methods

Questionnaire responses reveal that most U.S. producers and importers of certain tissue paper products and certain crepe paper products in the United States determine prices on a transaction-by-transaction basis based on current market conditions, with some firms reporting the use of set price lists. The majority of firms reported selling on a spot basis; however, U.S. producers reported a relatively greater mix of spot and contract sales. Those suppliers that did report the use of contracts to sell certain tissue paper products and certain crepe paper products generally reported using short-term (multiple deliveries for up to 12 months) contracts. Responding firms' answers regarding whether contract price and quantity are fixed were mixed with no clear trends; however, most firms reported that contracts do not have meet-or-release provisions.⁶

Sales Terms and Discounts

⁴ (...continued)

with a lead time of ***. *** reported in its importers' questionnaire that *** percent of its 2003 sales of bulk tissue paper were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***, whereas *** of its 2003 sales of consumer tissue paper were from inventory with a lead time of *** and *** percent of such sales were produced to order with a lead time of ***.

⁵ In its U.S. producers' questionnaire, *** reported that *** percent of both sales of certain tissue paper products and sales of certain crepe paper products occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles. *** reported in its U.S. producers' questionnaire that *** percent of its sales of bulk tissue paper occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles, whereas *** percent of its sales of consumer tissue paper occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles.

In its importers' questionnaire response, *** reported that *** percent of its sales of certain tissue paper products occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles. *** reported in its importers' questionnaire that *** percent of its sales of bulk tissue paper occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles, whereas *** percent of its sales of consumer tissue paper occurred within 100 miles, *** percent occurred within 101 to 1,000 miles, and *** percent occurred at distances over 1,000 miles.

⁶ *** reported in its U.S. producers' questionnaire that *** percent of its 2003 certain tissue paper sales were on a long-term contract basis and *** percent were on a spot basis, while sales of certain crepe paper involved ***. *** reported in its U.S. producers' questionnaire that all of its 2003 sales of bulk tissue paper were sold on a *** basis while all sales of consumer tissue paper were sold on a *** basis. ***'s responses were identical in its importers' questionnaire, while ***'s importers' questionnaire response stated that *** of its 2003 certain tissue paper sales were on a *** basis.

U.S. producers and importers reported that payment typically is required within 30 to 60 days and price quotes are either on an f.o.b. warehouse or delivered basis. The majority of responding firms reported some form of volume-based discounts.⁷

Internet Reverse Auctions

At the staff conference, both the petitioners and respondents discussed the use of internet reverse auctions as a means of purchasing tissue paper in the U.S. market. According to Seaman, such auctions are fairly common for larger purchases and involve some form of prequalification. The participating firms bid against each other in timed sessions with the lowest bidder at the end of the session winning the business. Seaman stated that such auctions were used only for bulk tissue paper purchases a few years ago but are now utilized for both bulk and consumer tissue paper purchases.^{8 9}

Target testified that it utilizes a reverse auction for some of its consumer tissue paper purchases. According to Target, approximately 10 months prior to an item's placement on the sales floor, Target begins discussions with potential suppliers to evaluate their packaging capabilities, the quality and consistency of their products, and their reliability of supply. Only potential suppliers that prequalify based on these factors and with which Target has prior business experience are invited to participate in the reverse auctions.¹⁰

Reverse auction data submitted in post-conference briefs provide some detail on 10 reverse auction events that occurred during the period for which data were collected. The data are incomplete regarding the participating vendors and their bids, thus it is not possible to determine if the winning bids were also the lowest final bids. Based on the data provided, U.S. producers participated in ***.¹¹ ***.¹²

PRICE DATA

The Commission requested U.S. producers and importers to provide quarterly data for the total quantity and value of sales of four tissue paper products and one crepe paper product to unrelated U.S. customers. These data were used to determine the weighted-average price in each quarter. Data were requested for the period January 2001 through December 2003. The products for which pricing data were requested are as follows:

Product 1. - Tissue paper, folds, 40 sheets (20"x24-26"), white, in poly bag or band

⁷ *** reported in its U.S. producers' and importers' questionnaires that payment for certain tissue paper products and certain crepe paper products is typically required within *** days and price quotes are ***. *** reported in its U.S. producers' questionnaire that payment for bulk tissue paper is typically required within *** days and price quotes are on an *** basis, while payment for consumer tissue is typically required by *** and price quotes are on an *** basis. *** reported in its importers' questionnaire that payment for bulk tissue paper is typically required within *** days and price quotes are on a *** basis, while payment for consumer tissue is typically required within *** days and price quotes are on an *** basis.

⁸ *Conference Transcript*, testimony of Ted Tepe, vice president of consumer products, Seaman, pp. 77-78.

⁹ Glitterwrap provides additional detail on Target's internet auction process in its postconference brief at pp. 19-20.

¹⁰ *Conference Transcript*, testimony of Bonita Rooney, senior buyer, Target, p. 136.

¹¹ *Petitioners' Postconference Brief*, exh. 6. ***. *Respondent Target's Postconference Submission*, March 15, 2004.

¹² *Respondent Target's Postconference Submission*, March 15, 2004, and *Respondent Glitterwrap's Postconference Brief*, pp. 19-20.

Product 2. - Tissue paper, folds, 5 sheets (20"x24-26"), color, in poly bag or band

Product 3. - Tissue paper, reams, 480-500 sheets, 20"x30", white

Product 4. - Tissue paper, reams, 480-500 sheets, 12"x20", white

Product 5. - Crepe paper, streamers, 1.75-2.00" width x 81 feet

Usable pricing data reported by the U.S. producers and importers accounted for 14.9 percent of the quantity of U.S. producers' U.S. shipments of certain tissue paper products and *** percent of the quantity of certain crepe paper products in 2003, as well as 8.3 percent of the quantity of U.S. shipments of imports of certain tissue paper products and *** percent of the quantity of certain crepe paper products from China in that year.¹³

Price Comparisons

Data on f.o.b. selling prices and quantities of products 1 through 5 sold by the U.S. producers and importers of the subject products are shown in tables V-1 through V-5 and figures V-1 through V-5, respectively.

Product 1

As shown in table V-1 and figure V-1, price comparisons for product 1 between the United States and China were possible in a total of 12 quarters. In one quarter, the Chinese product was priced above the U.S. product, with a margin of 0.2 percent. In the other 11 quarters, the Chinese product was priced below the U.S. product, with margins ranging from 2.8 to 34.7 percent and averaging 18.1 percent.

Table V-1

Product 1: Weighted-average f.o.b. prices and quantities as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 2001-December 2003

* * * * *

¹³ Some or all of the price data reported by U.S. producers American Crepe, Cindus, Crystal, Eagle Tissue, Flower City, Putney, and Seaman, as well as some or all of the price data reported by importers American Greetings, Cindus, Crystal, Cleo, Falcon Impex, Glitterwrap, Gunther Mele, Marvel Products, Promotions Unlimited, Seaman, Shalom International, Standard Quality, Sweetheart Cup, Unique, and Wego were used to calculate weighted average prices. Firms that were excluded either reported retail prices; reported in units other than square meters; reported data for products other than those specified in the questionnaire; or had unit values that were very incongruous with other reported price data. Unit values that were somewhat high relative to other reported data but were confirmed by staff as reflecting the requested products and requested units of measure were not excluded from the data.

Figure V-1
Weighted-average f.o.b. prices for product 1, as reported by U.S. producers and importers, by quarters, January 2001-December 2003

* * * * *

Product 2

As shown in table V-2 and figure V-2, price comparisons for product 2 between the United States and China were possible in a total of nine quarters. In six quarters, the Chinese product was priced above the U.S. product, with margins ranging from 13.8 to 95.5 percent and averaging 62.7 percent. In the other three quarters, the Chinese product was priced below the U.S. product, with margins ranging from 4.5 to 12.7 percent and averaging 8.1 percent.¹⁴

Table V-2
Product 2: Weighted-average f.o.b. prices and quantities as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 2001-December 2003

* * * * *

Figure V-2
Weighted-average f.o.b. prices for product 2, as reported by U.S. producers and importers, by quarters, January 2001-December 2003

* * * * *

Product 3

As shown in table V-3 and figure V-3, price comparisons for product 3 between the United States and China were possible in a total of 12 quarters. In three quarters, the Chinese product was priced above the U.S. product, with margins ranging from 4.0 to 23.2 percent and averaging 14.8 percent. In the other nine quarters, the Chinese product was priced below the U.S. product, with margins ranging from 15.7 to 30.7 percent and averaging 25.1 percent.

Table V-3
Product 3: Weighted-average f.o.b. prices and quantities as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 2001-December 2003

* * * * *

Figure V-3
Weighted-average f.o.b. prices for product 3, as reported by U.S. producers and importers, by quarters, January 2001-December 2003

* * * * *

¹⁴ ***.

Product 4

As shown in table V-4 and figure V-4, price comparisons for product 4 between the United States and China were not possible.

Table V-4

Product 4: Weighted-average f.o.b. prices and quantities as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 2001-December 2003

* * * * *

Figure V-4

Weighted-average f.o.b. prices for product 4, as reported by U.S. producers and importers, by quarters, January 2001-December 2003

* * * * *

Product 5

As shown in table V-5 and figure V-5, price comparisons for product 5 between the United States and China were possible in a total of 12 quarters. In seven quarters, the Chinese product was priced above the U.S. product, with margins ranging from 10.3 to 52.3 percent and averaging 40.3 percent. In the other five quarters, the Chinese product was priced below the U.S. product, with margins ranging from 5.0 to 17.1 percent and averaging 11.2 percent.¹⁵

Table V-5

Product 5: Weighted-average f.o.b. prices and quantities as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 2001-December 2003

* * * * *

Figure V-5

Weighted-average f.o.b. prices for product 5, as reported by U.S. producers and importers, by quarters, January 2001-December 2003

* * * * *

LOST SALES AND LOST REVENUE

The petitioners provided information on *** lost sales and lost revenue allegations for certain tissue paper products and *** lost sales and lost revenue allegations for certain crepe paper products. The investigated lost revenue allegations total \$*** and the investigated lost sales allegations total \$***.¹⁶ A summary of the information obtained is shown in tables V-6 and V-7.¹⁷ Additional comments are presented in the text that follows.

* * * * *

¹⁵ ***.

¹⁶ The complete list of lost sales and lost revenue allegations are provided in exh. 35 of the petition.

¹⁷ In addition, staff received responses from *** who both reported that they did not have the information to respond to the allegations.

Table V-6

Certain tissue paper products and certain crepe paper products: Lost revenue allegations

* * * * *

Table V-7

Certain tissue paper products and certain crepe paper products: Lost sales allegations

* * * * *

* * * * *

Purchasers responding to lost sales and lost revenue allegations were also asked whether they shifted their purchases of certain tissue paper products and certain crepe paper products from U.S. producers to suppliers of such products from China. In addition, they were asked whether U.S. producers reduced their prices in order to compete with suppliers of Chinese imports. Purchasers' responses to these questions are shown in table V-8.¹⁸ Twelve of 14 purchasers reported that since January 2001 they shifted purchases from U.S. producers to Chinese imports. Three of 10 purchasers stated that price was the reason for the shift. Three of 11 purchasers stated that since January 2001 U.S. producers reduced their prices in order to compete with prices of Chinese imports.

Table V-8

Certain tissue paper products and certain crepe paper products: Purchaser responses

* * * * *

¹⁸ ***.

PART VI: FINANCIAL EXPERIENCE OF THE U.S. PRODUCERS

BACKGROUND

Eight U.S. producers¹ provided financial data on their operations on certain tissue paper products. These data accounted for virtually all reported U.S. production of certain tissue paper products in 2003. In July 2003, Crystal sold its retail packaging business, ***, to Seaman. In October 2003, Crystal closed its Maysville, KY tissue converting facility ***.² ***.³ ***.⁴

OPERATIONS ON CERTAIN TISSUE PAPER PRODUCTS

Income-and-loss data for the U.S. producers on their certain tissue paper products operations are presented in table VI-1. Selected financial data, by firm, are presented in table VI-2. The aggregate operating income decreased from \$7.9 million in 2001 to \$4.7 million in 2002 and decreased further to \$3.4 million in 2003. The aggregate operating income margin declined from 6.5 percent in 2001 to 4.0 percent in 2002 and declined further to 3.8 percent in 2003.

The quantity of net sales decreased by 3.2 percent from 2001 to 2002 and by 24 percent from 2002 to 2003. From 2001 to 2002, on a per-square-meter basis, the total of average cost of goods sold and SG&A expenses rose more than the slight increase in the average selling price, resulting in a decrease in operating income. From 2002 to 2003, on a per-square-meter basis, average selling price remained the same while the average cost of goods sold declined slightly, resulting in a higher gross profit; average SG&A expenses increased slightly because of lower volume, resulting in a lower operating income. Three firms reported operating losses in 2003, compared with two firms in 2001 and 2002.

As table VI-2 demonstrates, the majority of the reduction in the quantity and value of net sales of certain tissue paper between 2001 and 2003 was attributable to reduced sales by ***. Likewise, ***'s diminished operating income in 2002 contributed substantially to the reduction in the level of operating income for the entire industry. In 2003, however, *** experienced reduced operating losses, while the entire industry experienced decreasing operating income. If ***'s data are excluded from the aggregate data, the operating income margins would be *** percent in 2001, *** percent in 2002, and *** percent in 2003.

A variance analysis for the eight U.S. producers of certain tissue paper products is presented in table VI-3. The information for this variance analysis is derived from table VI-1. Transfers to related firms were minor and averaged less than *** percent of total net sales by volume during 2001-03. The variance analysis provides an assessment of changes in profitability as related to changes in pricing, cost, and volume. This analysis is more effective when the product involved is a homogeneous product with no variation in product mix. The analysis shows that the decrease in operating income from 2001 to 2003 is attributable to the much higher unfavorable net volume and net expense (mainly SG&A expenses) variances compared to a small favorable price variance.

¹ U.S. producers and their fiscal year ends are ***.

² Questionnaire response of Crystal, question II-2, p. 4.

³ Questionnaire response of Garlock, question II-2, p. 3.

⁴ Questionnaire response of Seaman, question II-2, pp. 3 and 17.

Table VI-1

Results of operations of U.S. producers in the production of certain tissue paper products, fiscal years 2001-2003

Item	Fiscal year		
	2001	2002	2003
	Quantity (1,000 square meters)		
Net sales	2,153,919	2,085,826	1,584,462
	Value (\$1,000)		
Net sales	121,457	117,976	89,737
Cost of goods sold	90,220	89,190	65,373
Gross profit	31,237	28,786	24,364
SG&A expenses	23,309	24,091	20,917
Operating income	7,928	4,695	3,447
Interest expense	1,862	1,529	1,657
Other expense	0	0	246
Other income items	278	337	33
Net income	6,344	3,503	1,577
Depreciation/amortization	2,161	2,057	1,195
Cash flow	8,505	5,560	2,772
	Ratio to net sales (percent)		
Cost of goods sold	74.3	75.6	72.9
Gross profit	25.7	24.4	27.2
SG&A expenses	19.2	20.4	23.3
Operating income	6.5	4.0	3.8
	Value (per square meter)		
Net sales	\$0.0564	\$0.0566	\$0.0566
Cost of goods sold	0.0419	0.0428	0.0413
Gross profit	0.0145	0.0138	0.0154
SG&A expenses	0.0108	0.0116	0.0132
Operating income	0.0037	0.0023	0.0022
Net income	0.0029	0.0017	0.0010
	Number of firms reporting		
Operating losses	2	2	3
Data	8	8	8
Source: Compiled from data submitted in response to Commission questionnaires.			

Table VI-2

Results of operations of U.S. producers in the production of certain tissue paper products, by firm, fiscal years 2001-2003

* * * * * * *

Table VI-3

Variance analysis for the certain tissue paper products operations of U.S. producers, fiscal years 2001-2003

Item	Fiscal year		
	2001-03	2001-02	2002-03
	Value (\$1,000)		
Commercial sales:			
Price variance	***	***	***
Volume variance	***	***	***
Commercial sales variance	***	***	***
Transfers to related firms:			
Price variance	***	***	***
Volume variance	***	***	***
Transfer variance	***	***	***
Total net sales:			
Price variance	391	359	119
Volume variance	(32,111)	(3,840)	(28,358)
Total net sales variance	(31,720)	(3,481)	(28,239)
Cost of sales:			
Cost variance	994	(1,822)	2,379
Volume variance	23,853	2,852	21,438
Total cost variance	24,847	1,030	23,817
Gross profit variance	(6,873)	(2,451)	(4,422)
SG&A expenses:			
Expense variance	(3,770)	(1,519)	(2,617)
Volume variance	6,162	737	5,791
Total SG&A variance	2,392	(782)	3,174
Operating income variance	(4,481)	(3,233)	(1,248)
Summarized as:			
Price variance	391	359	119
Net cost/expense variance	(2,776)	(3,341)	(238)
Net volume variance	(2,096)	(251)	(1,129)
Note: Unfavorable variances are shown in parentheses; all others are favorable.			
Source: Compiled from data submitted in response to Commission questionnaires.			

Investment in Productive Facilities, Capital Expenditures, and Research and Development Expenses

The responding firms' aggregate data on capital expenditures, research and development expenses, and the value of their property, plant, and equipment are shown in table VI-4. Capital expenditures declined from \$1.9 million in 2001 to \$997,000 in 2003. None of the firms reported R&D expenses. ***.

Table VI-4

Value of assets, capital expenditures, and research and development expenses of U.S. producers of certain tissue paper products, fiscal years 2001-2003

Item	Fiscal year		
	2001	2002	2003
	Value (\$1,000)		
Capital expenditures	1,902	1,426	997
R&D expenses	0	0	0
Fixed assets:			
Original cost	34,279	35,024	25,325
Book value	15,864	14,798	12,026
Source: Compiled from data submitted in response to Commission questionnaires.			

Capital and Investment

The Commission requested U.S. producers to describe any actual or potential negative effects of imports of certain tissue paper products from China on their firms' growth, investment, and ability to raise capital or development and production efforts (including efforts to develop a derivative or more advanced version of the product). Their responses are shown in appendix D.

OPERATIONS ON CERTAIN CREPE PAPER PRODUCTS

Three U.S. producers⁵ supplied financial data on their operations on certain crepe paper products. These data accounted for virtually all reported U.S. production of certain crepe paper products in 2003. Income-and-loss data for the U.S. producers on their certain crepe paper products operations are presented in table VI-5. Selected financial data, by firm, are presented in table VI-6. The aggregate operating income decreased from *** in 2001 to *** in 2002 and decreased further to a negative *** in 2003. The aggregate operating income margin declined from *** percent in 2001 to *** percent in 2002 and then turned into an operating loss margin of *** percent in 2003.

⁵ U.S. producers and their fiscal year ends are ***.

Table VI-5
Results of operations of U.S. producers in the production of certain crepe paper products, fiscal years 2001-2003

* * * * * * *

Table VI-6
Results of operations of U.S. producers in the production of certain crepe paper products, by firm, fiscal years 2001-2003

* * * * * * *

The quantity of net sales increased by *** percent from 2001 to 2002 but then decreased by *** percent from 2002 to 2003. From 2001 to 2002, on a per-square-meter basis, average selling price declined by slightly more than the decline in average cost of goods sold, resulting in a slightly lower gross profit; average SG&A expenses increased, resulting in a declining operating income. From 2002 to 2003, on a per-square-meter basis, average selling price decreased while the average cost of goods sold increased, resulting in a lower gross profit; average SG&A expenses increased slightly because of lower volume, resulting in a negative operating income. *** firms reported operating losses in 2003, compared with none in 2001 and 2002.

A variance analysis for the three U.S. producers of certain crepe paper products is presented in table VI-7. The information for this variance analysis is derived from table VI-5. There were no transfers to related firms or internal consumption. The variance analysis provides an assessment of changes in profitability as related to changes in pricing, cost, and volume. This analysis is more effective when the product involved is a homogeneous product with no variation in product mix. The analysis shows that the decrease in operating income from 2001 to 2003 is attributable to the ***.

Table VI-7
Variance analysis for the certain crepe paper products operations of U.S. producers, fiscal years 2001-2003

* * * * * * *

***.⁶

Investment in Productive Facilities, Capital Expenditures, and Research and Development Expenses

The responding firms' aggregate data on capital expenditures, research and development expenses, and the value of their property, plant, and equipment are shown in table VI-8. Capital expenditures declined from *** in 2001 to *** in 2003. None of the firms reported R&D expenses.

⁶ Questionnaire response of Seaman, question II-2, p. 3.

Table VI-8

Value of assets, capital expenditures, and research and development expenses of U.S. producers of certain crepe paper products, fiscal years 2001-2003

* * * * *

Capital and Investment

The Commission requested U.S. producers to describe any actual or potential negative effects of imports of certain crepe paper products from China on their firms' growth, investment, and ability to raise capital or development and production efforts (including efforts to develop a derivative or more advanced version of the product). Their responses are shown in appendix D.

PART VII: THREAT CONSIDERATIONS

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follow.

The Commission sent foreign producer questionnaires to 80 firms identified in the petition and internet searches. Ten producers completed the Commission's questionnaire for their production operations in China, two additional exporting firms provided information, and the remainder did not respond to the Commission's questionnaires.¹

BACKGROUND

There are more than 4,000 paper mills in China,² of which approximately 750 produce tissue paper (broadly defined).³ China's tissue industry is growing to meet the expanding per capita consumption of tissue products in China,⁴ and in 2002, China produced approximately 3 million metric tons of tissue paper.⁵ As in the United States, the vast majority of tissue production in China is dry-creped tissue for sanitary and household purposes. Existing tissue mills in China typically range between 62 and 69 inches wide, which is considered small by industry standards.⁶ It is expected that the small mills will be displaced⁷ as large, modern mills are constructed.⁸

China's domestic supply of wood pulp is limited, but because market pulp is a globally traded commodity, the various grades of pulp are readily available to Chinese tissue paper manufacturers. According to petitioners, the design of some Chinese paper machines requires that manufacturers of certain tissue paper products use 100 percent virgin softwood pulp,⁹ especially when running lighter basis weights, to maintain sheet strength.¹⁰ However, Chinese producers also make lower grades of tissue paper entirely from post-consumer grades of recycled fiber.¹¹ Reportedly, Chinese paper machines engaged in the manufacture of certain tissue paper products are slower and narrower (40 to 60 inches

¹ Reported exports to the United States during 2001-2003 accounted for *** percent, *** percent, and *** percent, respectively, of reported U.S. imports of certain tissue products from China and *** percent, *** percent, and *** percent of certain crepe paper products as reported in Part IV.

² Rodden, Graeme, "Chinese Board Set to Boom," *Pulp & Paper International*, Vol. 45, no. 7 (Jul. 2003), p. 30.

³ Rooks, Alan, "Tissue: Hitting Them High and Low," *Solutions!*, Vol. 87, no. 3 (Mar. 2004), p. 28.

⁴ Oinonen, Hannu and Esko Uutela, "Chinese Tissue Industry Handles Domestic Demand, Targets Exports," *Solutions!*, Vol. 87, no. 3 (Mar. 2004), p. 30.

⁵ Pulp & Paper International 2003 Annual Review.

⁶ Oinonen, Hannu and Esko Uutela, "Chinese Tissue Industry Handles Domestic Demand, Targets Exports," *Solutions!*, Vol. 87, no. 3 (Mar. 2004), p. 30.

⁷ Rodden, Graeme, "Chinese Board Set to Boom," *Pulp & Paper International*, Vol. 45, no. 7 (July 2003), p. 30.

⁸ Oinonen, Hannu and Esko Uutela, "Chinese Tissue Industry Handles Domestic Demand, Targets Exports," *Solutions!*, Vol. 87, no. 3 (Mar. 2004), p. 30.

⁹ *Petition*, p. 11.

¹⁰ ***, interview by USITC Staff, ***, Feb. 27, 2004.

¹¹ *Conference Transcript*, testimony of Robert Moreland, president, City Paper, p. 186.

wide) than the machines used for the purpose in the United States.¹² It is likely that both fourdriniers and cylinder machines are used to make certain tissue paper products in China.¹³ Chinese manufacturers reportedly prefer to produce tissue paper weighing 14 grams per square meter (8.5 pounds).¹⁴ A U.S. purchaser of certain tissue paper products testified that the firm's purchases of certain tissue paper products from China included handmade tissue paper, which is not available in the United States.¹⁵

In contrast to the U.S. industry, which typically uses rotary flexographic presses,¹⁶ the Chinese industry reportedly uses rotogravure presses¹⁷ that are lighter in weight and print smaller, lighter rolls than presses in the United States.¹⁸ The same or similar designs are produced in China and the United States,¹⁹ but the rotogravure printing is reported by one company to be superior to flexographic printing when printing with gold and silver inks.²⁰ Also in contrast to the U.S. industry, certain converting operations (e.g., die cutting, folding, and packaging) are performed manually in China,²¹ which gives Chinese producers more flexibility to collate packages containing specialty tissue papers (e.g., die-cut, hot-stamped, or spot glitter printed tissue).²²

THE INDUSTRY IN CHINA PRODUCING CERTAIN TISSUE PAPER PRODUCTS

The Chinese manufacturers' and exporters' capacity, production, inventories, and shipments during 2001-2003, as well as their projections for 2004-2005, are presented in table VII-1. Seven firms reported producing certain tissue paper products in China in 2001, eight in 2002, and ten in 2003. Two firms reported producing products other than tissue paper on the same production lines used to produce the subject merchandise. One firm indicated an intention to increase capacity in 2004-2005, and one firm indicated an intention to reduce capacity.²³

¹² *Petition*, Exh. 5.

¹³ The petitioners noted their direct experience with Chinese cylinder machines. *Petition*, Exh. 5.

¹⁴ *Conference Transcript*, testimony of Sheldon Freeman, product manager, Wego, p. 188. In comparison, the U.S. basis weights range from approximately 14 to 18 grams per square meter (8.5 to 11 pounds per 3,000 square feet) for tissue paper without printing. Heavily printed tissue may weigh an additional 5 to 7 grams per square meter (3 to 4 pounds). *Conference Transcript*, testimony of Ted Tepe, vice president consumer products, Seaman, p. 83.

¹⁵ *Conference Transcript*, testimony of Bonita Rooney, senior buyer, Target Stores, p. 139.

¹⁶ ***, interview by USITC Staff, ***, Feb. 27, 2004.

¹⁷ Gravure presses use engraved printing plates. Ink remains in the cavities of the plate after the excess ink is removed with a doctor blade. The ink and, hence, the image is transferred to the paper by absorption. Compared with flexography, gravure yields higher quality printing but at higher cost and is typically reserved for long press runs. "3.4.2 Offset Litho and Gravure" found at http://www.paperloop.com/toolkit/paperhelp/3_4_2_key.shtml and retrieved on Mar. 17, 2004.

¹⁸ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 185.

¹⁹ *Conference Transcript*, testimony of William Shafer, president, Flower City, p. 28.

²⁰ *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, p. 177.

²¹ *Conference Transcript*, testimony of Alfred Scott, chief executive officer, Glitterwrap, p. 184, and *Petition*, Exh. 5.

²² *Conference Transcript*, testimony of Andrew Kelly, president, Cleo, pp. 128, 129.

²³ Respondents argue that recent changes in tax policy in China will have a restricting effect on exports of the subject merchandise. Specifically, respondents refer to "The Notification on VAT Rebates on Exports by Ministry of Finance and State Administration of Taxation No. 222 (2003)," pointing to the elimination of the VAT rebate on certain paper, paper pulp, and paperboard (including the subject merchandise) effective January 1, 2004.

Respondent Chinese Producers/Exporters' Postconference Brief, p. 7 and exh. 4. Petitioners contend that it is (continued...)

U.S. IMPORTERS' INVENTORIES OF CERTAIN TISSUE PAPER PRODUCTS

Table VII-2 presents data on U.S. importers' end-of-period inventories of imported certain tissue paper products from China. Crystal Creative ***.

U.S. IMPORTERS' CURRENT ORDERS FOR CERTAIN TISSUE PAPER PRODUCTS

U.S. importers reported 108.8 million square meters of certain tissue paper products scheduled for delivery in 2004.²⁴

ANTIDUMPING DUTY ORDERS IN THIRD-COUNTRY MARKETS

There are no known antidumping duty orders on certain tissue paper products from China in third-country markets.

²³ (...continued)

“unclear” that the VAT rebate has been eliminated for the subject merchandise, or that if such an elimination has affected the pricing of the subject merchandise from China. *Petitioners' Postconference Brief*, p. 36. *But see Petition*, exh. 31 (e-mail between ***, in which the latter company advised *** that ***).

²⁴ Few firms reported specific dates.

Table VII-1

Certain tissue paper products: Chinese production capacity, production, shipments, and inventories, 2001-2003 and projected 2004-2005

Item	Actual experience			Projections	
	2001	2002	2003	2004	2005
Quantity (1,000 square meters)					
Capacity	2,356,005	2,711,866	2,877,333	2,890,900	2,880,600
Production	2,166,512	2,451,586	2,806,246	2,813,854	2,803,714
End of period inventories	168,443	160,528	57,927	58,730	58,450
Shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	425,752	468,918	631,937	542,272	503,902
All other markets	185,309	177,990	256,457	269,110	273,120
Total exports	611,061	646,908	888,394	811,382	777,022
Total shipments	2,142,073	2,487,503	2,998,302	2,947,896	2,939,322
Ratios and shares (percent)					
Capacity utilization	92.0	90.4	97.5	97.3	97.3
Inventories to production	7.8	6.5	2.1	2.1	2.1
Inventories to total shipments	7.9	6.5	1.9	2.0	2.0
Share of total quantity of shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	19.9	18.9	21.1	18.4	17.1
All other markets	8.7	7.2	8.6	9.1	9.3
All export markets	28.5	26.0	29.6	27.5	26.4
¹ Less than 0.05 percent.					
Source: Compiled from data submitted in response to Commission questionnaires.					

Table VII-2

Certain tissue paper products: U.S. importers' end-of-period inventories of imports, 2001-2003

Source	Calendar year		
	2001	2002	2003
Imports from China:			
Inventories (1,000 square meters)	***	***	***
Ratio to imports (percent)	***	***	***
Ratio to U.S. shipments (percent)	***	***	***
Imports from all other sources:			
Inventories (1,000 square meters)	***	***	***
Ratio to imports (percent)	***	***	***
Ratio to U.S. shipments (percent)	***	***	***
Imports from all sources:			
Inventories (1,000 square meters)	25,359	40,896	88,638
Ratio to imports (percent)	12.6	11.9	9.8
Ratio to U.S. shipments (percent)	13.0	12.6	10.4
¹ Not applicable.			
Source: Compiled from data submitted in response to Commission questionnaires.			

THE INDUSTRY IN CHINA PRODUCING CERTAIN CREPE PAPER PRODUCTS

The Chinese manufacturers' and exporters' capacity, production, inventories, and shipments during 2001-2003, as well as their projections for 2004-2005, are presented in table VII-3. One firm reported producing certain crepe paper products in China in 2001, three in 2002, and three in 2003. No firms reported producing products other than crepe paper on the same production lines used to produce the subject merchandise. No firm indicated an intention to increase or decrease capacity in 2004-2005, although reporting firms' projections show a slight decrease in capacity from 2003 to 2004.²⁵

Table VII-3

Certain crepe paper products: Chinese production capacity, production, shipments, and inventories, 2001-2003 and projected 2004-2005

* * * * *

²⁵ Please refer to footnote 23 of this section for information regarding China's policy on the VAT rebate.

U.S. IMPORTERS' INVENTORIES OF CERTAIN CREPE PAPER PRODUCTS

Table VII-4 presents data on U.S. importers' end-of-period inventories of imported certain crepe paper products from China.

Table VII-4

Certain crepe paper products: U.S. importers' end-of-period inventories of imports, 2001-2003

* * * * *

U.S. IMPORTERS' CURRENT ORDERS FOR CERTAIN CREPE PAPER PRODUCTS

U.S. importers reported 5.2 million square meters of certain crepe paper products scheduled for delivery in 2004.²⁶

ANTIDUMPING DUTY ORDERS IN THIRD-COUNTRY MARKETS

There are no known antidumping duty orders on certain crepe paper products from China in third-country markets.

²⁶ Few firms reported specific dates.

APPENDIX A
***FEDERAL REGISTER* NOTICES**

9505.90.40. Unless the Department of Commerce extends the time for initiation pursuant to section 732(c)(1)(B) of the Act (19 U.S.C. 1673a(c)(1)(B)), the Commission must reach a preliminary determination in antidumping investigations in 45 days, or in this case by April 2, 2004. The Commission's views are due at Commerce within five business days thereafter, or by April 9, 2004.

For further information concerning the conduct of this investigation and rules of general application, consult the Commission's rules of practice and procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and B (19 CFR part 207).

EFFECTIVE DATE: February 17, 2004.

FOR FURTHER INFORMATION CONTACT: Fred Ruggles (202-205-3187 or fruggles@usitc.gov), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

SUPPLEMENTARY INFORMATION:

Background. This investigation is being instituted in response to a petition filed on February 17, 2004, by Seaman Paper Company of Massachusetts, Inc. ("Seaman"), American Crepe Corporation ("American Crepe"), Eagle Tissue LLC ("Eagle"), Flower City Tissue Mills Co. ("Flower City"), Garlock Printing & Converting, Inc. ("Garlock"), Paper Service Ltd. ("Paper Service"), Putney Paper Co., Ltd. ("Putney"), and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO, CLC ("PACE").

Participation in the investigation and public service list. Persons (other than petitioners) wishing to participate in the investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the Commission's rules, not later than seven days after publication of this notice in the **Federal Register**. Industrial users and (if the merchandise under investigation is sold at the retail level)

representative consumer organizations have the right to appear as parties in Commission antidumping investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list. Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in this investigation available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigation under the APO issued in the investigation, provided that the application is made not later than seven days after the publication of this notice in the **Federal Register**. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Conference. The Commission's Director of Operations has scheduled a conference in connection with this investigation for 9:30 a.m. on March 9, 2004, at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC. Parties wishing to participate in the conference should contact Fred Ruggles (202-205-3187) not later than March 5, 2004, to arrange for their appearance. Parties in support of the imposition of antidumping duties in this investigation and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

Written submissions. As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before March 12, 2004, a written brief containing information and arguments pertinent to the subject matter of the investigation. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by

INTERNATIONAL TRADE COMMISSION

[Investigation No. 731-TA-1070 (Preliminary)]

Certain Tissue Paper Products and Crepe Paper Products From China

AGENCY: International Trade Commission.

ACTION: Institution of antidumping investigation and scheduling of a preliminary phase investigation.

SUMMARY: The Commission hereby gives notice of the institution of an investigation and commencement of preliminary phase antidumping investigation No. 731-TA-1070 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) (the Act) to determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from China of certain tissue paper products and crepe paper products that are alleged to be sold in the United States at less than fair value. The tissue paper products and crepe paper products subject to this investigation do not have specific classification numbers assigned to them under the Harmonized Tariff Schedule of the United States (HTS) and appear to be imported under one or more of several different residual or "basket" categories, including but not necessarily limited to the following subheadings: 4802.30; 4802.54; 4802.61; 4802.62; 4802.69; 4804.39; 4806.40; 4808.30; 4808.90; 4811.90; 4823.90; and

section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

Issued: February 18, 2004.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 04-3799 Filed 2-20-04; 8:45 am]

BILLING CODE 7020-02-P

Initiation of Investigations**The Petition**

On February 17, 2004, the Department of Commerce ("Department") received an antidumping duty petition ("Petition") filed in proper form by Seaman Paper Company of Massachusetts, Inc. ("Seaman"); American Crepe Corporation ("American Crepe"); Eagle Tissue LLC ("Eagle"); Flower City Tissue Mills Co. ("Flower City"); Garlock Printing & Converting, Inc. ("Garlock"); Paper Service Ltd. ("Paper Service"); Putney Paper Co., Ltd. ("Putney"); and the Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO, CLC ("PACE") (collectively "Petitioners"). Seaman, Eagle, Flower City, Garlock, Paper Service, and Putney are domestic producers of certain tissue paper products. Seaman and American Crepe are domestic producers of certain crepe paper products. On February 18, 2004, February 20, 2004, and February 24, 2004, the Department asked Petitioners to clarify certain aspects of the Petition. On February 23, 2004, February 24, 2004, and February 27, 2004, Petitioners submitted information to supplement the Petition ("First Supplemental Response," "Second Supplemental Response," and "Third Supplemental Response," respectively). On February 27, 2004, the Department requested that Petitioners provide publicly ranged data for the quantity and value of imports (see *Memorandum to the File: Request for Publicly Ranged Data for Volume and Value of Imports of Tissue Paper and Crepe Paper From the Peoples Republic of China*, dated February 27, 2004). On March 3, 2004, Petitioners filed their response to the Department's request ("Fourth Supplemental Response"). In accordance with section 732(b) of the Tariff Act of 1930, as amended ("the Act"), Petitioners allege that both imports of certain tissue paper products and certain crepe paper products from the People's Republic of China ("PRC") are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act, and that such imports are materially injuring, or threatening material injury to, the respective U.S. industries.

The Department finds that Petitioners filed their Petition on behalf of each domestic industry because they are an interested party as defined in section 771(9)(C) of the Act, and Petitioners have demonstrated sufficient industry support with respect to the investigations they are presently

seeking. See *Determination of Industry Support for the Petition* section below.

Determination of Industry Support for the Petition

Section 732(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 732(c)(4)(A) of the Act provides that the Department's industry support determination, which is to be made before the initiation of the investigation, be based on whether a minimum percentage of the relevant industry supports the petition. A petition meets this requirement if the domestic producers or workers who support the petition account for: (i) at least 25 percent of the total production of the domestic like product; and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 732(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the "industry" as the producers of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The International Trade Commission ("ITC"), which is responsible for determining whether "the domestic industry" has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. See *USEC, Inc. v. United States*, 132 F. Supp. 2d 1, 8 (Ct. Int'l Trade 2001), citing *Algoma Steel Corp. Ltd. v. United States*, 688 F. Supp. 639, 642-44 (Ct. Int'l Trade 1988).

DEPARTMENT OF COMMERCE**International Trade Administration**

[A-570-894, A-570-895]

Notice of Initiation of Antidumping Duty Investigations: Certain Tissue Paper Products and Certain Crepe Paper Products from the People's Republic of China

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

EFFECTIVE DATE: March 15, 2004.

FOR FURTHER INFORMATION CONTACT: Michael Ferrier at (202) 482-2667, Rachel Kreissl at (202) 482-0409, and Nazak Nikakhtar at (202) 482-9079 of Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230.

SUPPLEMENTARY INFORMATION:

Section 771(10) of the Act defines the domestic like product as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title.” Thus, the reference point from which the domestic like product analysis begins is “the article subject to an investigation,” *i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the Petition.

With regard to the domestic like products, Petitioners do not offer definitions of domestic like products distinct from the scopes of the investigations. Petitioners state that the two domestic like products are certain tissue paper products and crepe paper products. Based on our analysis of the information submitted in the Petition, we have determined that there are two domestic like products, certain tissue paper products and certain crepe paper products, which are defined further in the “Scope of the Investigations” section above, and we have analyzed industry support in terms of these domestic like products. For more information on our analysis and the data upon which we relied, *see* First Supplemental Response; *Antidumping Duty Investigation Initiation Checklist* (“Initiation Checklist”), dated March 8, 2004, Attachment II - Industry Support on file in the Central Record Unit (“CRU”) in room B-099 of the main Department of Commerce building. Additionally, Petitioners stated that they do not object if the Department wants to conduct two separate investigations of certain tissue paper products and certain crepe paper products (*see* First Supplemental Response).

Based on the foregoing reasons and facts of this investigation, the Department will conduct two separate investigations of the subject merchandise, an individual investigation of certain tissue paper products from the PRC and an individual investigation of certain crepe paper products from the PRC.

In determining whether the domestic petitioners have standing, we considered the industry support data contained in the Petition with reference to the domestic like products as defined above in the “Scope of the Investigations” section. Petitioners note that the Harmonized Tariff System does not have discrete categories for tissue paper products and crepe paper products. Consequently, Petitioners derived estimates of total imports for each product by summing market intelligence data and applying actual industry knowledge. *See* Petition at 34.

Petitioners provided a declaration from an individual familiar with the tissue paper and crepe paper industries in the United States to support their market intelligence findings. *See* Petition at Exhibit 9.

Using the data described above, individual shares of the total estimated U.S. production of both certain tissue paper products and certain crepe paper products, represented by Petitioners in year 2003, exceeds 50 percent of total domestic production of certain tissue paper products and over 50 percent of total domestic production of certain crepe paper products. Therefore, the Department finds the domestic producers of certain tissue paper products who support the Petition account for at least 25 percent of the total production of the domestic like product. The Department also finds the domestic producers of crepe paper products who support the Petition account for at least 25 percent of the total production of that domestic like product. In addition, as no domestic producers have expressed opposition to the Petition, the Department also finds the domestic producers of both certain tissue paper products and certain crepe paper products, who support the Petition, account for more than 50 percent of the total domestic production of their respective products produced by those portions of the industries expressing support for, or opposition to, the Petition.

Therefore, we find that Petitioners have met the requirements of section 732(c)(4)(A) of the Act, with respect to both certain tissue paper products and crepe paper products.

Scope of the Investigations

The products covered by these two investigations are: 1) certain tissue paper products, and 2) certain crepe paper products from the People's Republic of China.

Tissue Paper Products

The tissue paper products subject to investigation are cut-to-length sheets of tissue paper having a basis weight not exceeding 29 grams per square meter. Tissue paper products subject to this investigation may or may not be bleached, dye-colored, surface-colored, glazed, surface decorated or printed, sequined, crinkled, embossed, and/or die cut. The tissue paper subject to this investigation is in the form of cut-to-length sheets of tissue paper with a width equal to or greater than one-half (0.5) inch. Subject tissue paper may be flat or folded, and may be packaged by banding or wrapping with paper or film, by placing in plastic or film bags, and/

or by placing in boxes for distribution and use by the ultimate consumer. Packages of tissue paper subject to this investigation may consist solely of tissue paper of one color and/or style, or may contain multiple colors and/or styles.

Tissue paper products subject to this investigation do not have specific classification numbers assigned to them under the Harmonized Tariff Schedule of the United States (“HTSUS”) and appear to be imported under one or more of the several different “basket” categories, including but not necessarily limited to the following subheadings: HTSUS 4802.30, HTSUS 4802.54, HTSUS 4802.61, HTSUS 4802.62, HTSUS 4802.69, HTSUS 4804.39, HTSUS 4806.40, HTSUS 4808.30, HTSUS 4808.90, HTSUS 4811.90, HTSUS 4823.90, HTSUS 9505.90.40.

Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.

Excluded from the scope of the investigation are the following tissue paper products: (1) tissue paper products that are coated in wax, paraffin, or polymers, of a kind used in floral and food service applications; (2) tissue paper products that have been perforated, embossed, or die-cut to the shape of a toilet seat, *i.e.*, disposable sanitary covers for toilet seats; (3) toilet or facial tissue stock, towel or napkin stock, paper of a kind used for household or sanitary purposes, cellulose wadding, and webs of cellulose fibers (HTS 4803.00.20.00 and 4803.00.40.00).

Crepe Paper Products

Crepe paper products subject to investigation have a basis weight not exceeding 29 grams per square meter prior to being creped and, if appropriate, flameproofed. Crepe paper has a finely wrinkled surface texture and typically but not exclusively is treated to be flame-retardant. Crepe paper is typically but not exclusively produced as streamers in roll form and packaged in plastic bags. Crepe paper may or may not be bleached, dye-colored, surface-colored, surface decorated or printed, glazed, sequined, embossed, die-cut, and/or flame-retardant. Subject crepe paper may be rolled, flat or folded, and may be packaged by banding or wrapping with paper, by placing in plastic bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of crepe paper subject to this investigation may consist solely of crepe paper of one color and/or style, or may contain multiple colors and/or styles.

Crepe paper products subject to this investigation do not have specific classification numbers assigned to them under the Harmonized Tariff Schedule of the United States ("HTSUS") and appear to be imported under one or more of the several different "basket" categories, including but not necessarily limited to the following subheadings: HTSUS 4802.30, HTSUS 4802.54, HTSUS 4802.61, HTSUS 4802.62, HTSUS 4802.69, HTSUS 4804.39, HTSUS 4806.40, HTSUS 4808.30, HTSUS 4808.90, HTSUS 4811.90, HTSUS 4823.90, HTSUS 9505.90.40.

Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.

Comments

As discussed in the preamble to the Department's regulations, we are setting aside a period for parties to raise issues regarding product coverage. See *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997). The Department encourages all interested parties to submit such comments within 20 days of publication of this notice. Comments should be addressed to Import Administration's Central Records Unit, Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230. This period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and consult with parties prior to the issuance of the preliminary determinations.

Period of Investigation

The anticipated period of investigation ("POI") for the both certain tissue paper products and certain crepe paper products will be July 1, 2003 through December 31, 2003. See 19 CFR 351.204(b).

Export Price and Normal Value

The following are descriptions of the allegations of sales at less than fair value upon which the Department based its decision to initiate these investigations. The source or sources of data for the deductions and adjustments relating to U.S. market prices, cost of production ("COP"), and normal value ("NV") have been accorded treatment as business proprietary information. Petitioners' sources and methodology are discussed in greater detail in the business proprietary version of the Petition and in our *Initiation Checklist*. Should the need arise to use any of this information as facts available under section 776 of the Act in our preliminary or final

determinations, we may re-examine this information and revise the margin calculations, if appropriate.

Export Price

For certain tissue paper products and certain crepe paper products from the PRC, Petitioners based their calculations of U.S. Price on Export Price ("EP"), as tissue paper products and crepe paper products were offered for sale to unaffiliated U.S. purchasers prior to their importation. Prices were based on price quotes obtained by Petitioners from three Chinese producers of certain tissue paper products and crepe paper products in November 2003. See Petition Exhibit 31. Based on these quotes, Petitioners calculated an average per-unit price for 7 x 20, 20 count, white folded tissue paper and an average per-unit price for a 1: inch x 81 foot, scarlet crepe streamer in U.S. dollars. See Petition at 28 and Exhibit 30. Terms of delivery are free on board ("FOB") China port. Petitioners were unable to adjust the U.S. price for deductions resulting from foreign inland freight and brokerage and handling charges incurred in China since Petitioners could not assess the exact distances that Chinese producers shipped the subject merchandise. Therefore, Petitioners note that the antidumping margin for certain tissue paper products and certain crepe paper products in the Petition are understated and conservative to the extent that the Petitioners' calculation of U.S. Price does not deduct foreign inland freight and brokerage and handling charges incurred in China. See Petition at 28–29.

Normal Value ("NV")

Petitioners assert that the Department considers China to be a NME and therefore, constructed NV based on the factors of production methodology pursuant to section 773(c) of the Act. According to section 773(c) of the Act, if subject merchandise is exported from a NME country, the Department shall determine NV based on the value of the factors of production ("FOP") used to produce the subject merchandise, as valued in a surrogate market economy country. In accordance with section 771(18)(C)(i) of the Act, the NME status remains in effect until revoked by the Department. See *Notice of Final Determination of Sales at Less Than Fair Value: Honey from the People's Republic of China*, 66 FR 50,608, 50,609 (October 4, 2001). In previous cases, the Department has determined that China is a NME country. The NME status of China has not been revoked by the Department and, therefore, remains in effect for purposes of the initiation of

these investigations. In the course of these investigations, all parties will have the opportunity to provide relevant information related to the issues of China's NME status and the granting of separate rates to individual exporters.

Because China is a NME country, Petitioners stated that they valued all FOPs for producing certain tissue paper products and certain crepe paper products according to the values of those factors in India, the surrogate market economy country. See *Notice of Final Determination of Sales at Less Than Fair Value: Certain Folding Gift Boxes from the People's Republic of China*, 66 FR 58,115, 58,117 (November 20, 2001); *Notice of Final Determination of Sales at Less Than Fair Value: Honey from the People's Republic of China*, 66 FR 50,608, 50,609 (October 4, 2001). The surrogate values were derived from publicly published domestic prices, import prices, and quoted prices obtained from Indian manufacturers and reprinted in industry publications. See Petition at 21–27 and Exhibit 12. Factory overhead, general and administrative expenses, profit, the cost of packing, and other expenses were added to the cost of manufacturing associated with the production of each subject merchandise. See Petition at Exhibit 30.

Petitioners assert that India was an appropriate surrogate country based on the Department's surrogate country selection criteria for determining the NVs for subject merchandise from a NME country. Specifically, the two selection criteria, as required by the statute (see section 773(c)(4) of the Act), are economic comparability and significant production of comparable merchandise.

Petitioners point out that the Department has consistently found India to be an appropriate surrogate for China based on 1) the overall economic development of India according to the per capita gross national product ("GNP"), the national distribution of labor in India, and the growth rate in per capita GNP (see Memorandum from Catherine Bertrand, Case Analyst, Through Edward C. Yang Office Director, and James C. Doyle, Program Manager, To the File, *Antidumping Investigation of Certain Hot-Rolled Carbon Steel Flat Products From the People's Republic of China: Selection of a Surrogate Country* at 2 (April 23, 2001)); and 2) findings that India is a "significant producer" of comparable merchandise. See section 773(c)(4) of the Act. Petitioners obtained promotional materials from Pudumjee Pulp and Paper, an Indian producer of comparable merchandise, that supports

a finding that India is a significant producer of certain tissue paper products and certain crepe paper products. See Petition at 18 and Exhibit 13.

Although the usage rates of the FOPs for both certain tissue paper products and certain crepe paper products should be based on the actual consumption rates of the investigated Chinese producers (see section 773(c)(1) of the Act and 19 CFR 351.408(a)), Petitioners were unable to obtain the true amounts of inputs consumed by the Chinese producers. Petitioners established reasonable estimates of the per-unit consumption amounts of the FOPs, actual consumption rates of the FOPs, and usage rates of the FOPs for certain tissue paper products and certain crepe paper products produced by the Chinese producers, based on the actual production experience and consumption rates of a domestic producer of tissue paper products and crepe paper products during the period July 1, 2003 through December 31, 2003, the proposed POI. See Petition at 19. This domestic producer's tissue paper and crepe paper production processes are representative of the production experiences of the Chinese manufacturers of subject merchandise that are exported to the United States. See Petition at 19 and Exhibit 14; Petition at 20, Exhibit 14, and Third Supplemental Response at Exhibit 3, for revised calculations of NV and FOP. Additionally, according to Petitioners, the tissue paper products and crepe paper products produced by this domestic manufacturer are also highly representative of the Chinese producers' tissue paper products and crepe paper products in size, packaging, and tissue color. See Petition at 20.

The FOP values of the domestic producer of tissue paper products and crepe paper products were adjusted to account for the known differences in quantities and production processes used by the Chinese producers of subject merchandise. See Declaration (Petition at Exhibit 5).

However, Petitioners believe that the FOP usage rates contained in the Petition are conservative estimates of the actual usage rates incurred by Chinese manufacturers of subject merchandise because Petitioners believe that the domestic producers' production experience is more cost-efficient than the production methods of Chinese manufacturers of both tissue paper products and crepe paper products. See Petition at pages 19 and 20 and Exhibit 5, Paragraphs 10 and 11.

Petitioners also note that the production process of tissue paper

differs between U.S. producers and Chinese manufacturers in one particular respect. Typically, Chinese production of tissue paper products employs an extensive amount of manual labor for folding and packaging the merchandise. Petitioners stated that in constructing the normal values for Chinese tissue paper products, they used labor hour data from domestic companies that offer manual folding and packaging services to domestic producers of tissue paper, as an estimate of the labor hours used to fold and package the Chinese tissue paper products. See Petition at 20.

Petitioners calculated the total cost for each input used to produce the subject merchandise by converting Indian prices denominated in rupees to U.S. dollars, using the average Indian rupee/U.S. dollar exchange rate during the period July 1, 2003 through December 31, 2003. The average exchange rate was calculated based on daily exchange rates downloaded from the ITA website. See Petition at 21.

Factor input prices for all raw materials consist of prices from only non-NME countries except for Thailand, Korea, and Indonesia, consistent with prior Department determinations. These prices were the most contemporaneous prices available at the time of the Petition filing.

Factor of Production for: White Folded Tissue Paper, 7 x 20 Inch, 20 Count

Tinopal is an optical brightener used to enhance the whiteness of white tissue paper, the sample product chosen by Petitioners to calculate normal value, and was valued by Petitioners using publicly available Indian intelligence trade data obtained from InfoDrive. See Petition at 24. Indian imports of Tinopal are categorized under HTS number 3204.20.10 for the period June 2003 to August 2003. See Petition at 24 and Second Supplemental Response at Exhibit 5.

Factors of Production for: Scarlet Crepe Streamer, 1 3/4 Inch x 81 Foot

The chemical dye used in the production of scarlet crepe streamers was valued using price quotes provided in *Chemical Weekly*, an Indian chemical industry journal. Petitioners stated that editions of *Chemical Weekly* provided Indian market prices, from the Mumbai Dye Market, for dyes used in the manufacture of tissue paper, such as "Scarlet 4B (Direct Red)," for the months of July 2003 through November 2003. Petitioners stated that no prices were available for December 2003. See Petition at 22 and Exhibits 16 & 17.

Cartafix, a dye fixative and factor input used in the production of scarlet

crepe streamers, is categorized under HTS number 3809.92.00. Petitioners valued Cartafix using publicly available Indian intelligence trade data from InfoDrive for the period March 2003 through May 2003. Prices were represented from non-NME countries only, and these prices were the most contemporaneous data available to Petitioners. Accordingly, prices for Cartafix were inflated using the World Price Index ("WPI") inflator. See Petition at 23 and Second Supplemental Response at Exhibit 5.

Flame-proof salts are only used in the production of crepe paper products and were valued by Petitioners using Indian import data contained in the *Monthly Statistics of Foreign Trade of India*, ("MSFTI"). The surrogate value for flame-proof salts was based on Indian imports classified under tariff heading 3809.92.00. See Petition at Exhibit 24 and at page 24. The value was based on data for the period April 2002 through January 2003 and was inflated using the WPI inflator. See Second Supplemental Response at 6 and Exhibits 5 & 6.

Factors of Production for: White Folded Tissue Paper, 7 x 20 Inch, 20 Count and Scarlet Crepe Streamer, 1 3/4 Inch x 81 Foot

Petitioners valued wood pulp using Indian surrogate values derived from InfoDrive (see www.infodriveindia.com), a source of surrogate value data recognized and relied upon by the Department in other proceedings. The data from InfoDrive are specific to the types of wood pulp consumed in the production of subject merchandise and are also contemporaneous with the POI. See Second Supplemental Response at 4 and Exhibit 2.

Sulfuric acid is an input used in the production of both tissue paper products and crepe paper products. Petitioners stated that sulfuric acid was valued using price quotes, from the Mumbai and Bangalore chemical markets, printed in *Chemical Weekly* for the period July 2003 through December 2003. Petitioners stated that prices from the two markets, spanning the POI, were comparable, and the prices were averaged in Petitioners' normal value calculations. See Petition at Exhibit 18. Source documentation was included for these chemical prices published in *Chemical Weekly*. See Petition at 22 and Exhibit 19.

Water was valued by Petitioners using the publicly available water tariff rates reported in the second *Water Utilities Data Book: Asian and Pacific Region*, published by the Asian Development Bank (see Petition at Exhibit 20) in

accordance with the Department's reliance on this source in the past (see *Notice of Preliminary Results of Antidumping Duty New Shipper Review: Glycine from the People's Republic of China*, 68 FR 13,669, 13,771 (March 20, 2003)). Water tariff rates were provided as of 1995–1996 for three areas in India in which the subject merchandise is produced: Chennai, Delhi, and Mumbai. Petitioners averaged the rupee per kilogram rates applicable to industrial users in Chennai and Delhi and factories/works/mills in Mumbai to derive an average rupee per kilogram price. Because Petitioners could only acquire data reported for a period prior to the POI, the average rupee per kilogram price was adjusted using the WPI inflator. See Petition at 23 and Second Supplemental Response at Exhibit 6.

Other Factors of Production: Packaging, Labor and Energy Costs

Packing was calculated for both tissue paper products and crepe paper products using retail bags, retail labels, carton labels, wholesale plastic bags, and corrugated boxes. Petitioners valued retail labels, carton labels, and wholesale plastic bags, and corrugated boxes using Indian import data contained in the MSFTI. The HTS classification was based on Indian imports under tariff heading 4821.10.01, 3923.21.00, 4819.10.01 and 4819.20.01, respectively. Petitioners stated that they calculated a surrogate value for each packing material based on Indian imports classified under these tariff headings for the period April 2002 through January 2003, which were the most contemporaneous data available. See Petition at 26 & 27 and Second Supplemental Response at Exhibits 3 & 5. Petitioners obtained the surrogate price for retail bags from price quotes of an Indian producer of retail bags of precisely the type consumed in the production of subject merchandise. The Indian surrogate price is specific to the types of retail bags consumed in the production of subject merchandise and the POI. See Second Supplemental Response at 5 and Exhibits 2, 3, & 5.

Pursuant to 19 CFR § 351.408(c)(3), Petitioners used the labor value for China as published by the Department at <http://ia.ita.doc.gov/wages/01wages/01wages.html>. The most current labor value in China is US\$ 0.90 per hour based on 2001 data. See Petition at 25.

Energy costs associated with the manufacture of tissue paper products and crepe paper products consist of electricity and fuel oil. Petitioners used Indian prices for industrial electricity and fuel oil values published in the

2003 second quarter edition of the International Energy Agency's *Energy Prices and Taxes* ("IEA") publication, which provided data for the year 2000. See Petition at Exhibit 25. Because this data is for a time period outside the POI, they were adjusted for inflation using the WPI inflator. See Petition at 25, 26 and Exhibit 25 and Second Supplemental Response at Exhibit 4.

Factory overhead, SG&A, and profit ratios for subject merchandise were calculated by Petitioners using the financial statement of Pudumjee Pulp and Paper, an Indian producer of subject merchandise. See Petition at 27 and Exhibit 29, and Second Supplemental Response at 6 and 7. Factory overhead, SG&A, and Profit ratios for subject merchandise were 36.31 percent, 34.13 percent, and 1.59 percent respectively. See Petition at Exhibit 29. Depreciation was allocated according to the type of fixed assets to which the depreciation was related. See Second Supplemental Response at 6 and Petition, Exhibit 29 at 23.

Based on the above calculations, Petitioners estimated FOP-based NVs for Chinese production of certain tissue paper products and certain crepe paper products. See Initiation Checklist for proprietary details of FOP-based NVs. The estimated antidumping margin for tissue paper is 163.36 percent and the estimated antidumping margin for crepe paper is 266.83 percent. See Third Supplemental Response at Exhibit 3.

Fair Value Comparisons

Based on the data provided by Petitioners, there is reason to believe imports of certain tissue paper products and certain crepe paper products from the PRC are being, or are likely to be, sold at less than fair value.

Allegations and Evidence of Material Injury and Causation

Petitioners allege that the U.S. tissue paper industry and crepe paper industry are being materially injured, or threatened with material injury, by reason of the imports of the subject merchandise sold at less than NV from the PRC.

Petitioners contend that the tissue paper and crepe paper industry's injured condition is evident from examining economic indicators preceding the POI and during the POI, such as increase in volume and market share of imports, decline in domestic prices, decrease in U.S. shipments, decline in operating income, decrease of domestic market share, drop in domestic capacity utilization rates, lost sales and lost revenue. See Petition at pages 35–45; *Initiation Checklist* at

Attachment III; Second Supplemental Response at pages 11–12.

Initiation of Antidumping Investigations

Based on our examination of the Petition covering certain tissue paper products and certain crepe paper products, we find that the Petition meets the requirements of section 732 of the Act. Therefore, we are initiating two antidumping duty investigations to determine whether imports of certain tissue paper products and certain crepe paper products from the PRC are being, or are likely to be, sold in the United States at less than fair value. Unless this deadline is extended pursuant to section 733(b)(1)(A) of the Act, we will make our preliminary determinations no later than 140 days after the date of this initiation, or July 26, 2004.

Distribution of Copies of the Petition

In accordance with section 732(b)(3)(A) of the Act, a copy of the public version of the Petition has been provided to representatives of the government of the PRC. We will attempt to provide a copy of the public version of the Petition to each exporter named in the Petition, as provided in section 19 CFR 351.203(c)(2).

International Trade Commission Notification

The ITC will preliminarily determine on April 2, 2004, whether there is reasonable indication that imports of certain tissue paper products and certain crepe paper products from the PRC are causing, or threatening, material injury to a U.S. industry. A negative ITC determination will result in the investigations being terminated with respect to these products; otherwise, these investigations will proceed according to statutory and regulatory time limits.

Administrative Protective Order ("APO") Access

APO access in these investigations will be granted under two separate APOs, with separate APO and Public Service Lists. All interested parties who had been granted APO status under the initial case number assigned to tissue paper products and crepe paper products from the People's Republic of China will need to re-apply for APO access in the now separate investigation of crepe paper products under the case number A–570–895. The initial APO listing both products will be amended for the tissue paper products investigation. Any party who no longer qualifies to be an interested party in the tissue paper products investigation will

need to withdraw their APO application as it pertains to this investigation.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: March 8, 2004.

James J. Jochum,

*Assistant Secretary for Import
Administration.*

[FR Doc. 04-5798 Filed 3-12-04; 8:45 am]

BILLING CODE 3510-DS-S

APPENDIX B

CONFERENCE WITNESSES

CALENDAR OF THE PUBLIC CONFERENCE

Those listed below appeared as witnesses at the United States International Trade Commission's conference held in connection with the following investigation:

CERTAIN TISSUE PAPER PRODUCTS AND CREPE PAPER PRODUCTS FROM CHINA

Investigation No. 731-TA-1070 (Preliminary)

March 9, 2004 - 9:30 am

The conference was held in Courtroom A of the United States International Trade Commission Building, 500 E Street, SW, Washington, DC.

IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING DUTIES:

Collier Shannon Scott
Washington, D.C.
on behalf of

Seaman Paper Company of Massachusetts
George Jones III, President,
Ted Tepe, VP Consumer Products

Flower City Tissue Mills Co.
Bill Shafer III, President,

Georgetown Economic Services
Patrick J. Magrath, Director
Gina E. Beck, Economist

David A. Hartquist)
Kathleen W. Cannon)— OF COUNSEL
Adam H. Gordon)

IN OPPOSITION TO THE IMPOSITION OF ANTIDUMPING DUTIES:

Sonnenschein Nath & Rosenthal LLP
Washington, DC
on behalf of

Cleo Inc.
Andrew W. Kelly, President

Stephen L. Gibson
Gregory S. Menegaz)--OF COUNSEL

Garvey Schubert & Barer
Washington, DC
on behalf of

City Paper Company
Barry Zern, Chief Operating Officer

Standard Quality Corp.
Robert Moreland, President

Wego Chemical & Mineral Corp.
Sheldon Freeman, Product Manager

Glitterwrap, Inc.
Alfred Scott, Chief Executive Officer

William E. Perry
James Patrick Briscoe)--OF COUNSEL

Neville Peterson LLP
Washington, DC
on behalf of

Target Stores and Target Brands, Div. of Target Corp.
Bonita Rooney, Senior Buyer, Stationery and Gift Wrap,
Toni Dembski-Brandl, Senior Counsel

George W. Thompson
John M. Peterson)--OF COUNSEL

IN OPPOSITION TO THE IMPOSITION OF ANTIDUMPING DUTIES:--Continued

Hunton & Williams LLP
Washington, DC
on behalf of

China Chamber of Commerce for Import and Export of Light Industrial Products and Arts-Crafts
Guilin Qifeng Paper Co. Ltd. Fuzhou Light Industry Import & Export Co., Ltd. Fujian Naoshan Paper
Industry Group Co., Ltd. Everlasting Business & Industry Corporation Ltd.

William Silverman
Richard P. Ferrin)--OF COUNSEL

White & Case LLP
Washington, DC
on behalf of

Max Fortune Industrial, Ltd.

Adams C. Lee
Jonathan Seiger)--OF COUNSEL

Blank Rome LLP
Washington, DC
on behalf of

Unique Industries, Inc.

Edward J. Farrell
Roberta Kienast Daghir)--OF COUNSEL

APPENDIX C
SUMMARY DATA

Table C-1

Certain tissue paper products: Summary data concerning the U.S. market, 2001-2003

(Quantity=1,000 square meters; value=1,000 dollars; unit values, unit labor costs, and unit expenses are *per square meter*, and period changes=*percent*, except where noted)

Item	Calendar year			Period changes		
	2001	2002	2003	2001-2003	2001-2002	2002-2003
U.S. consumption quantity:						
Amount	2,225,472	2,420,464	2,515,273	13.0	8.8	3.9
Producers' share ¹	91.3	86.6	66.1	-25.2	-4.7	-20.5
Importers' share: ¹						
China	***	***	***	***	***	***
Other sources	***	***	***	***	***	***
Total	8.7	13.4	33.9	25.2	4.7	20.5
U.S. consumption value:						
Amount	128,081	138,008	133,948	4.6	7.8	-2.9
Producers' share ¹	90.5	85.8	68.6	-21.9	-4.7	-17.2
Importers' share: ¹						
China	***	***	***	***	***	***
Other sources	***	***	***	***	***	***
Total	9.5	14.2	31.4	21.9	4.7	17.2
U.S. shipments of imports from--						
China:						
Quantity	***	***	***	***	***	***
Value	***	***	***	***	***	***
Unit value	\$0.0626	\$0.0604	0.0493	-25.1	-5.6	-20.7
Ending inventory	***	***	***	***	***	***
Other sources:						
Quantity	***	***	***	***	***	***
Value	***	***	***	***	***	***
Unit value	***	***	***	***	***	***
Ending inventory	***	***	***	***	***	***
All sources:						
Quantity	194,616	324,908	852,919	338.3	66.9	162.5
Value	12,173	19,629	42,028	245.3	61.2	114.1
Unit value	\$0.0671	\$0.0634	\$0.0503	-25.1	-5.6	-20.7
Ending inventory	25,359	40,896	88,638	249.5	61.3	116.7
U.S. producers'--						
Capacity quantity	3,685,696	3,845,534	3,796,582	3.0	4.3	-1.3
Production quantity	2,060,013	2,200,185	1,724,608	-16.3	6.8	-21.6
Capacity utilization ¹	55.9	57.2	45.4	-10.5	1.3	-11.8
U.S. shipments:						
Quantity	2,030,856	2,095,556	1,662,354	-18.1	3.2	-20.7
Value	115,908	118,379	91,920	-20.7	2.1	-22.4
Unit value	\$0.0571	\$0.0565	\$0.0553	-3.1	-1.0	-2.1

Table continued on next page.

(Quantity=1,000 square meters; value=1,000 dollars; unit values, unit labor costs, and unit expenses are *per square meter*; and period changes=*percent*, except where noted)

Item	Calendar year			Period changes		
	2001	2002	2003	2001-2003	2001-2002	2002-2003
Export shipments:						
Quantity	***	***	***	17.5	14.0	3.1
Value	***	***	***	13.5	12.6	0.7
Unit value	\$0.0527	\$0.0521	\$0.0508	-3.5	-1.1	-2.3
Ending inventory quantity	297,225	363,500	378,191	27.2	22.3	4.0
Inventories/total shipments ¹	14.4	17.0	22.1	7.8	2.6	5.1
Production workers	562	542	402	-28.5	-3.6	-25.8
Hours worked (1,000 hours)	1,154	1,126	962	-16.6	-2.4	-14.6
Wages paid (1,000 dollars)	14,334	15,267	13,487	-5.9	6.5	-11.7
Hourly wages	\$12.49	\$13.61	\$14.07	12.7	9.0	3.4
Productivity (square meters per hour)	1,785.6	1,953.3	1,791.8	0.3	9.4	-8.3
Unit labor costs	\$0.0070	\$0.0070	\$0.0079	12.0	-0.5	12.6
Net sales:						
Quantity	2,153,919	2,085,826	1,584,462	-26.4	-3.2	-24.0
Value	121,458	117,976	89,738	-26.1	-2.9	-23.9
Unit value	\$0.0564	\$0.0566	\$0.0566	0.4	0.3	0.1
COGS	90,220	89,190	65,373	-27.5	-1.1	-26.7
Gross profit or (loss)	31,237	28,786	24,364	-22.0	-7.8	-15.4
SG&A expenses	23,309	24,091	20,917	-10.3	3.4	-13.2
Operating income or (loss)	7,928	4,695	3,447	-56.5	-40.8	-26.6
Capital expenditures	1,902	1,426	997	-47.6	-25.0	-30.1
Unit COGS	\$0.0419	\$0.0428	\$0.0413	-1.5	2.1	-3.5
Unit SG&A expenses	\$0.0108	\$0.0116	\$0.0132	22.0	6.7	14.3
Unit operating income or (loss)	\$0.0037	\$0.0023	\$0.0022	-40.9	-38.8	-3.3
COGS/sales ¹	74.3	75.6	72.8	-1.4	1.3	-2.8
Operating income or (loss)/sales ¹	6.5	4.0	3.8	-2.7	-2.5	-0.1
¹ Period changes are in percentage points. ² Not applicable.						
Note.—Because of rounding, figures may not add to the totals shown.						
Source: Compiled from data submitted in response to Commission questionnaires and from official Commerce statistics.						

Table C-2
Certain crepe paper products: Summary data concerning the U.S. market, 2001-2003

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Table C-3
Certain tissue paper products and crepe paper products: Summary data concerning the U.S. market, 2001-2003

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Table C-4

Certain consumer tissue paper products: Summary data concerning the U.S. market, 2001-2003

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Table C-5

Certain bulk tissue paper products: Summary data concerning the U.S. market, 2001-2003

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Table C-6

Certain consumer tissue paper products: Chinese production capacity, production, shipments, and inventories, 2001-2003 and projected 2004-2005

Item	Actual experience			Projections	
	2001	2002	2003	2004	2005
Quantity (1,000 square meters)					
Capacity	418,505	494,366	659,833	673,400	663,100
Production	409,667	470,519	559,030	583,854	573,714
End of period inventories	25,597	32,795	8,325	22,663	28,383
Shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	294,721	309,132	479,603	436,272	412,902
All other markets	34,542	48,745	55,407	119,110	125,120
Total exports	329,263	357,877	535,010	555,382	538,022
Total shipments	433,113	491,322	666,956	704,362	703,322
Ratios and shares (percent)					
Capacity utilization	97.9	95.1	84.6	86.6	86.4
Inventories to production	6.2	7.0	1.5	3.9	4.9
Inventories to total shipments	5.9	6.7	1.2	3.2	4.0
Share of total quantity of shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	68.0	62.9	71.9	61.9	58.7
All other markets	8.0	9.9	8.3	16.9	17.8
All export markets	76.0	72.8	80.2	78.8	76.5
Source: Compiled from data submitted in response to Commission questionnaires.					

Table C-7

Certain bulk tissue paper products: Chinese production capacity, production, shipments, and inventories, 2001-2003 and projected 2004-2005

Item	Actual experience			Projections	
	2001	2002	2003	2004	2005
Quantity (1,000 square meters)					
Capacity	1,937,500	2,217,500	2,217,500	2,217,500	2,217,500
Production	1,756,845	1,981,067	2,247,216	2,230,000	2,230,000
End of period inventories	142,846	127,733	49,602	36,067	30,067
Shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	131,031	159,786	152,334	106,000	91,000
All other markets	150,767	129,245	201,050	150,000	148,000
Total exports	281,798	289,031	353,384	256,000	239,000
Total shipments	1,708,960	1,996,181	2,331,346	2,243,535	2,236,000
Ratios and shares (percent)					
Capacity utilization	90.7	89.3	101.3	100.6	100.6
Inventories to production	8.1	6.4	2.2	1.6	1.3
Inventories to total shipments	8.4	6.4	2.1	1.6	1.3
Share of total quantity of shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	7.7	8.0	6.5	4.7	4.1
All other markets	8.8	6.5	8.6	6.7	6.6
All export markets	16.5	14.5	15.2	11.4	10.7
Source: Compiled from data submitted in response to Commission questionnaires.					

Table C-8

Certain tissue paper and crepe paper products: Chinese production capacity, production, shipments, and inventories, 2001-2003 and projected 2004-2005

Item	Actual experience			Projections	
	2001	2002	2003	2004	2005
Quantity (1,000 square meters)					
Capacity	2,356,665	2,715,731	2,908,380	2,920,590	2,910,290
Production	2,167,072	2,455,372	2,836,303	2,842,974	2,832,794
End of period inventories	168,443	160,712	59,927	60,230	59,450
Shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	426,232	470,338	633,936	544,032	505,362
All other markets	185,736	180,413	277,193	292,390	296,990
Total exports	611,968	650,751	911,129	836,422	802,352
Total shipments	2,142,980	2,493,398	3,029,878	2,979,686	2,970,902
Ratios and shares (percent)					
Capacity utilization	92.0	90.4	97.5	97.3	97.3
Inventories to production	7.8	6.5	2.1	2.1	2.1
Inventories to total shipments	7.9	6.4	2.0	2.0	2.0
Share of total quantity of shipments:					
Internal consumption	***	***	***	***	***
Home market	***	***	***	***	***
Exports to--					
The United States	19.9	18.9	20.9	18.3	17.0
All other markets	8.7	7.2	9.1	9.8	10.0
All export markets	28.6	26.1	30.1	28.1	27.0
¹ Less than 0.05 percent.					
Source: Compiled from data submitted in response to Commission questionnaires.					

APPENDIX D

ALLEGED EFFECTS OF IMPORTS ON PRODUCERS' EXISTING DEVELOPMENT AND PRODUCTION EFFORTS, GROWTH, INVESTMENT, AND ABILITY TO RAISE CAPITAL

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of certain tissue paper products and certain crepe paper products from China, on their return on investment or their growth, investment, ability to raise capital, and existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or their scale of capital investments undertaken as a result of such imports. The responses are as follows:

Certain Tissue Paper Products:

Actual Negative Effects

Chemco

Crystal

Eagle

Flower City

Garlock

Hallmark

Paper Service

Putney

Seaman

Anticipated Negative Effects

Chemco

Crystal

Eagle

Flower City

Garlock

Hallmark

Paper Service

Putney

Seaman

Certain Crepe Paper Products:

Actual Negative Effects

American Crepe

Cindus

Seaman

Anticipated Negative Effects

American Crepe

Cindus

Seaman
